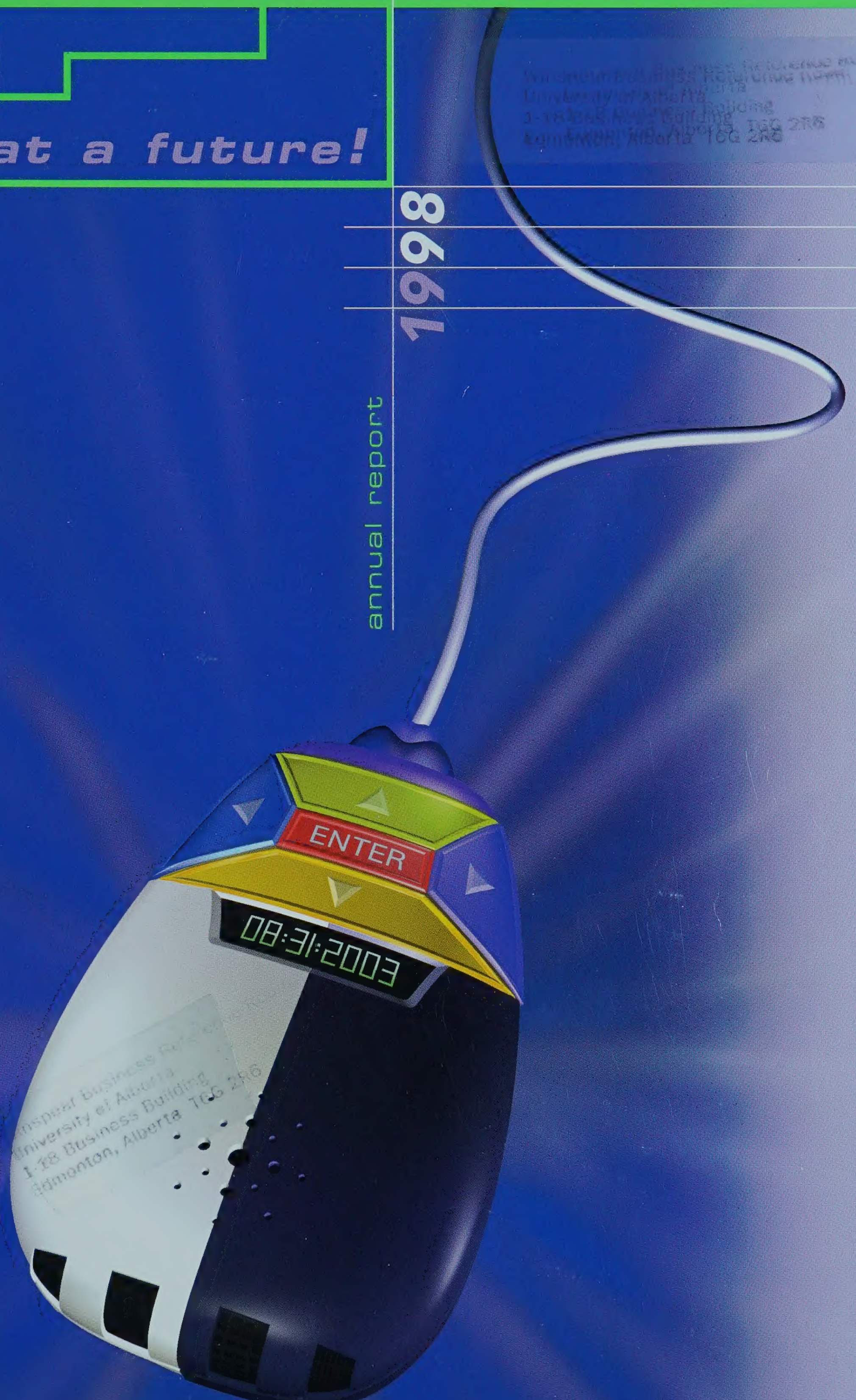
what a future!

1998

annual report



SHAW

SHAW

our customers' view

connected | interactive | educational

entertaining | direct | futuristic

dramatic | illuminating | advanced

interested | expressive | unique

caring | involved | emotional

stimulating | amazing | effective

integrated | enabling | multifaceted

responsive | flexible | dynamic

special | proactive | precise

practical | expert | encompassing

attentive | action | active | vital

vivid | fusion | kaleidoscopic

engaging | extraordinary | energy

exchange | mobile | multimedia

satellite

divisions

- Star Choice Television – Shaw owns approximately 49% of Star Choice – one of Canada's two currently licensed DTH satellite operators distributing digital subscription video and audio programs. Star Choice also provides uplink services to Canadian speciality and pay television programmers and is licensed to provide, on a wholesale basis, a signal to Canadian cable operators.

future strategy

Star Choice intends to increase its product and services as planned increased transponder capacity becomes available.

goals

Star Choice's objective is to become the leading provider of satellite – delivered programming services in Canada. Its business strategy is based on developing three complementary revenue streams – DTH, uplinking and wholesale distribution - from a single cost base.

highlights 98

Since its fall 1997 launch, Star Choice has grown to over 109,000 subscribers.

The WIC investment provides the future opportunity to increase Shaw's presence in the satellite industry. CanCom, 54% owned by WIC, provides uplink and other satellite services and has revenues of approximately $119 million.

outlook

The satellite coverage of Star Choice's digital DTH subscription television services will permit cost-effective delivery of extensive programming options to its primary target markets, approximately 5.9 million households and seasonal homes currently unserved or underserved by cable.

revenue

$86 million

media

divisions

- Programming – Major programming investments include: YTV (Youth and Family), CMT (Country Music), TreeHouse (Preschool), The Comedy Network, Teletoon and Telatino.
- Radio – Shaw owns 11 stations in B.C., Alberta and Ontario, including: CFNY – Toronto, CKRY – Calgary, CISN – Edmonton and CFOX – Vancouver.

future strategy

Continue to grow in specialty programming networks through; acquisitions, new licenses, improving existing networks by creating new revenue streams and achieving high ratings in their respective targeted markets.

Radio – Continue to acquire radio stations in markets that provide opportunities for synergies and growth, and be rated number one or two in their respective markets.

goals

Programming – Provide growth, diversification and synergistic benefits by creating a significant presence in specialty programming networks. Radio – increase revenues and profits by increasing ratings in each market and through strategic acquisitions.

highlights 98

YTV and CMT continued record increases in revenue and operating income. Revenue grew by 18% and operating income by 30%. Radio operations improved with revenues growing 26% and operating income by 22%. The WIC investment also provides the opportunity to add Superchannel, Movie Max and the Family Channel to the programming portfolio as well as 12 radio stations which are strategically located in relation to the Company's existing 11 radio stations. This will ultimately allow Media to evolve into a separate public company with revenues of approximately $260 million.

outlook

Programming – Viewer demand for choice is escalating. Ownership of programming, content creation, licensing and networking, offer many new and attractive opportunities.

Radio – The CRTC has revised radio regulations allowing existing licence holders to own more than one AM or FM station in a market – resulting in a stronger industry with more opportunity for well positioned companies like Shaw.

revenue

$125 million

SHAW

FACTOID

Star Choice brings high-quality, as well as extensive new television programming options to previously unserved or underserved areas like Shuswap, B.C. That's why DTH satellite technology is the ideal complement to Shaw's cable operations.

FACTOID

A new FiberLink connection from Calgary through Lethbridge to the U.S. border provides a vital interconnection point with American-based telecommunications carriers. Canadians now have a speed-of-light continental connection.

FACTOID

The long-awaited digital radio revolution finally arrives when Shaw's Toronto stations begin broadcasting in both analog and digital – for the first time providing CD-quality music.

FACTOID

The dream of interactive television becomes a reality with the introduction of bi-directional cable service offering Shaw customers a cornucopia of new services such as Internet access and impulse pay-per-view.

The Shaw name is widely known and respected as a vital electronic link to millions of people through cable television, telecommunications, high speed internet access, paging, speciality programming networks, radio, satellite and the digital delivery of music. Shaw believes that its future prosperity will grow from its ability to deliver the highest quality products and services to customers. That is why Shaw has developed a corporate culture that actively promotes and rewards excellence in customer responsibility and employee commitment.

telecommunications

goals

FiberLink – grow and diversify by taking advantage of the new market opportunities available within an increasingly deregulated telecommunications industry.

Paging – generate customer growth by focusing on the consumer paging market.

revenue

$42 million

future strategy

FiberLink – Extend market leadership in the delivery of high-quality business telecommunications products and services by leveraging the advantages of the Shaw fiber cable network infrastructure.

Paging – Expand opportunities in the consumer paging market.

divisions

- Shaw FiberLink - provides fiber optic data, video, voice and internet connections.
- Shaw Paging - provides paging services directly to consumers and businesses as well as co-branding pagers with other Shaw companies such as CFNY, YTV and CMT.

outlook

The $22 billion Canadian Telecommunications services industry is growing at 10 percent per year. Data communications is growing at 25 percent annually. The Internet continues to grow exponentially. Shaw is ideally positioned to gain significant market share and revenues through existing competitive advantages and the introduction of new products and services.

highlights 98

FiberLink customers and revenue doubled in 1998. Fiber kilometers grew to 3,289. Fiber route kilometers grew to 197,340. Points of presence to potential customers expanded to 570.
Paging revenue was flat as Paging continued moving from commercial subscription services into the ultimately more lucrative retail market.

cable

goals

Sustain an ever-improving level of customer service. Continue to grow by adding new services and subscribers. Maximize our human resources through incentive pay and training. Continue to utilize plant capacity in the most efficient manner.

revenue

$611 million

future strategy

Continue to be the low-cost, high quality service provider by employing the best people and technology.

Grow the critical mass of 1.5 million subscribers effectively and efficiently through clustering.

divisions

- Cable Systems – cable television serves 1.5 million subscribers in B.C., Alberta, Saskatchewan, Manitoba and Ontario.
- SHAW@HOME – high-speed Internet access.
- DMX – premium music services.
- Advertising Services.

outlook

The cable industry is in transition from a highly regulated environment to one based on fair and sustainable competition. As this transition enters its final phases, Shaw remains firmly focused on positioning itself for continued success by establishing Shaw as the preferred, lowest-cost distributor of home entertainment and information services – notably in the exponentially expanding area of Internet access.

highlights 98

The cable division continues to be a leader in operating margins. Basic subscribers increased by over 28,000.

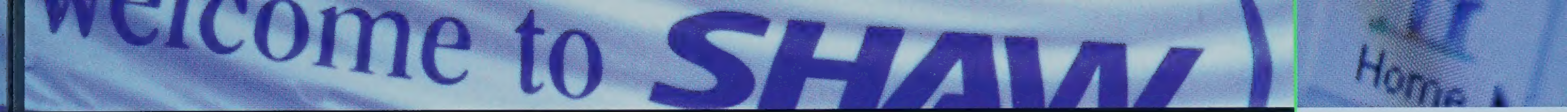
Tier III service was successfully launched and now has more than 750,000 subscribers.

SHAW@HOME was successfully launched with 5% penetration, or over 50,000 subscribers.

1998 financial highlights

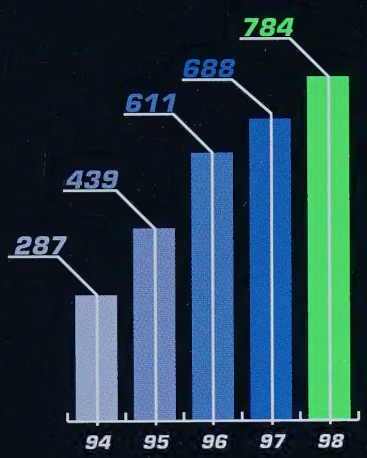
Shaw Communications Inc. is a diversified Canadian communications company and one of the largest cable television operators in the country. With approximately 1.5 million subscribers, Shaw serves about 18% of the Canadian cable market.

	Years ended August 31	
(thousands of dollars except as indicated)	1998	1997
RESULTS OF OPERATIONS		
Total Revenue	783,800	688,363
Operating Income before interest, amortization and income taxes	315,847	293,162
Net income	13,525	16,592
Cash flow from continuing operations	183,686	151,747
Capital expenditures	261,071	227,003
PER SHARE DATA		
Cash flow per share	$ 2.30	$ 2.17
Earnings (loss) per share	$ (0.01)	$ 0.24
Weighted average shares outstanding (000's)	73,649	70,008
FINANCIAL POSITION		
Total assets	3,201,224	2,450,201
Long-term debt	1,347,249	1,478,251
Shareholders' equity	1,415,597	579,376
Debt to cash flow ratio	3.86 to 1	4.91 to 1
CABLE TELEVISION		
Basic subscribers	1,507,589	1,509,407
Revenue per subscriber	$ 403	$ 365
Operating income per subscriber	$ 182	$ 173

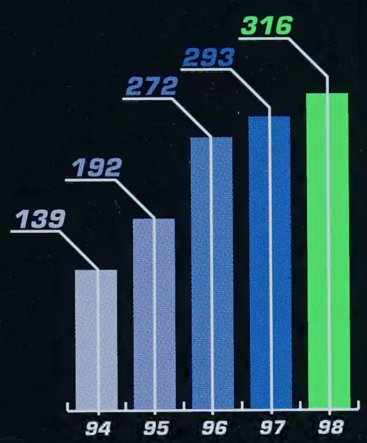


revenue

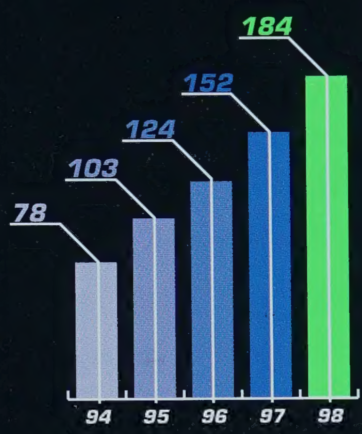
($ millions)



operating income
before amortization
($ millions)

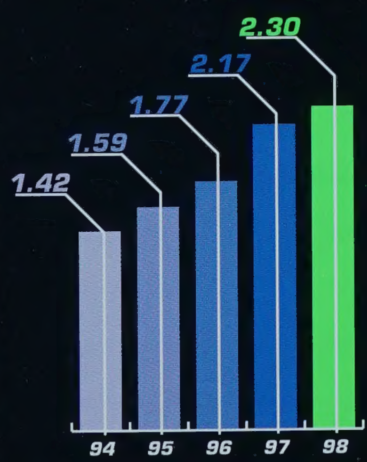


cash flow from operations
($ millions)



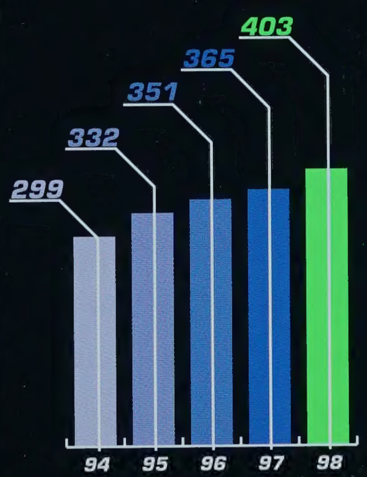
cash flow

($ per share)

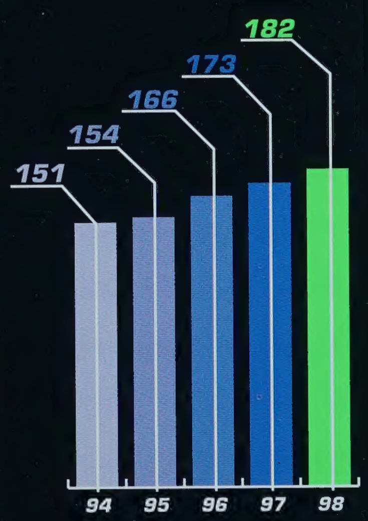


cable revenue

($ per subscriber)



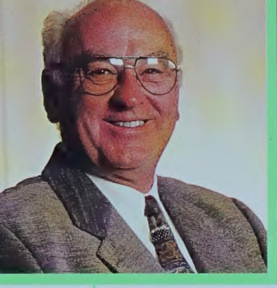
cable operating income
($ per subscriber)



What Shaw accomplished in 1998

"has set the stage for what lies ahead: A future of new achievement and creative growth."

[JR Shaw and Jim Shaw - October 21/98]



JR Shaw
Chairman of the Board and Chief Executive Officer

Jim Shaw
President and Chief Operating Officer

to our shareholders

MISSION: To deliver a broad array of high-quality, high-value entertainment, information and communications services to our customers utilizing a variety of distribution technologies.

TO OUR SHAREHOLDERS

Everyone at Shaw is extremely proud of the Company's 1998 performance and very optimistic about the future. This past year, Shaw grew and prospered as a diversified, innovative, facilities-based entertainment and communications provider - and developed exciting new perspectives on the way the Company does business. What Shaw accomplished in 1998 has set the stage for what lies ahead: A future of new achievement and creative growth.

Everything Shaw is and will be derives from the Company's strong foundation as one of the country's premier providers of cable services. Shaw's leadership in cable plant and technology was extended in 1998 with the successful roll-out of digital cable services and bi-directional television, the extension and enhancement of Internet access, the delivery of the popular residential digital music service DMX, and the expansion of FiberLink's telecommunications facilities and services.

The Media division was equally active and productive, achieving improved results in all aspects of programming, including YTV and CMT enjoying record sales and earnings across the board.

Shaw's Satellite Services Division also delivered strong performance as Star Choice consolidated its position as the leading provider of satellite-delivered video and audio programming services in Canada.

1998 marked a new stage in Shaw's growth. Over the past few years, we've focused on our core business, acquired other strategic assets, and disposed of many non-strategic businesses. We've also invested in many areas that are starting to pay off - both financially and in new opportunities - for instance, the increased investment in a technically sophisticated infrastructure and the introduction of a compelling variety of leading-edge products that provide our customers with the widest possible range of integrated media, video, audio and data services. We have also developed innovative ways of obtaining the financial resources to fuel our growth and development. The future truly is outstanding for one of Canada's leading multimedia and entertainment companies.

JR Shaw

Shaw has always been committed to growing its cash flow in order to be able to support the growth and market value of its stock. Earlier this year, senior management publicly committed to an even tighter focus on increasing share value and managing debt. In 1998, cash flow per share rose from $2.17 to $2.30, a six percent increase; share value increased to $26.70 from $12.10 a year ago; and debt to EBITDA ratio was reduced from 4.9 to 3.9.

RECORD PERFORMANCE FROM EVERY DIVISION

Even in an increasingly competitive environment, the Cable division continued to grow in both subscribers and revenue. Buoyed by a powerful marketing campaign and the successful launch of Tier III services and Internet services, the Cable division increased revenues by 12.7 percent in 1998. As always, the Cable division continued its program of excellence in providing customers with new products and services. DMX, the music provider, also made a positive contribution for the first time since its start-up two years ago.

Shaw FiberLink expanded significantly this past year and experienced strong growth with both customers and revenue doubling over 1997.

Among Shaw's Media operations, Programming continued to contribute positively to the growth and diversification of the Company. YTV and CMT lead the way with record increases in revenue and operating income. Radio also performed extremely well and contributed strongly to the Company's overall success - increasing revenues by 26 percent. The WIC acquisition (subject to regulatory approval) provides the catalyst to create a new public company focused solely on media properties. This new public company, to be named in late 1998, will begin with revenues of approximately $260 million. As a tightly focused, separate company it will enjoy accelerated growth and Shaw shareholders will have the opportunity to participate in that growth.

Proven Management

"Shaw is well managed, with cable radio and programming margins among the best in the industry." [Bunting Warburg - June 8/98]

"Consistently outperformed the TSE Cable and Entertainment Index since 1989." [RBC Dominion Securities - August 28/98]

The Satellite division offers more scope for growth. Less than a year after launching its national service, Star Choice Television has grown to over 109,000 subscribers and the acquisition of CanCom (a provider of uplink and other satellite services) in the WIC transaction provides the future opportunity to increase Shaw's presence in the satellite industry.

A YEAR OF ACHIEVEMENT AND EVOLUTION

Shaw's across-the-board performance records are directly attributable to substantial progress in the main operations of the Company and to a number of exciting 1998 initiatives and achievements which spurred the Company's evolution and growth. Among these was the exchange of cable television systems with Cogeco Cable Inc. – through which the Company received Cogeco's systems serving Courtney/Comox, Kamloops and Powell River, BC and Lethbridge, Alberta (total 65,000 basic subscribers) and $58 million in cash in exchange for Shaw's systems in Windsor, Chatham, Leamington and Smith Falls, Ontario (total 95,000 subscribers) - that strengthened the Company's presence in the west and provided more scope for the development of the Company's core business.

Jim Shaw

Throughout 1998, Shaw was strengthened and expanded in a number of exciting and innovative ways. The acquisition of the very strong WIC media assets positions the Company perfectly to create and grow a new Media company. Shaw's successful introduction of new products and services such as digital radio, digital television, Internet access and the new Tier III of specialty cable networks. In these areas and in every aspect of the Company's operations, Shaw continues to implement new ideas, technologies and services that offer our customers increasing choice, convenience and value.

In the spring of 1998, Shaw sold its holdings in Moffat Communications, Microcell and 400,000 shares of At Home Corporation, resulting in a gain, net of taxes, of approximately $36 million. These transactions continued the Company's process of improving its balance sheet and focusing on core operations.

FINANCIAL FLEXIBILITY

In the fall of 1997, Shaw became the first (and still the only) cable company to access financial markets with a unique offering of Canadian Originated Preferred Securities (COPrS) that successfully raised approximately $300 million. In the summer of 1998, the Company raised another $250 million with a second successful COPrS issue. The maturities of the

various issues are 30, 49 and 99 years with Shaw having the ability to redeem after five years with no premium. The unique characteristics of COPrS deliver an after-tax cost of capital of 4.7 percent and are treated as equity in the financial statements. This treatment provided the Company with the financial flexibility to effectively carry out its growth and diversification strategy. With rapid and adequate access to funding, Shaw was able to take full advantage of acquisition opportunities such as Star Choice and WIC. As part of its WIC transaction, Shaw also issued approximately $300 million in equity - for a total of $850 million in equity raised since the fall of 1997. This innovative approach to financing will continue to fuel expansion opportunities as they present themselves in the future.

WHAT A FUTURE!

Shaw is growing in many ways - and when you finish a great year, the only way to go is up. At Shaw, our culture is based on shared decision-making, total accountability and absolute teamwork. There are many reasons to be optimistic about Shaw's future. None is more important than "team Shaw". For its customers and its shareholders, "team Shaw" is the essential competitive advantage that make it possible to say with unrestrained enthusiasm, What a year! *What a Future!*

JR Shaw

Chairman of the Board and Chief Executive Officer

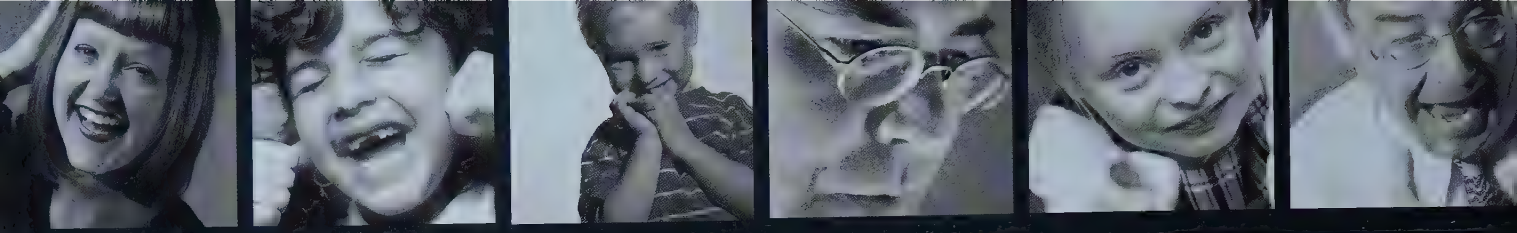
Jim Shaw

President and Chief Operating Officer

Just when you least expect it,

"Shaw has made another astute move."

[Griffiths McBurney & Partners - September 16/98]



what a

what a future!

Over more than 25 years of evolution and growth, Shaw has become one of Canada's foremost entertainment and communications providers - and in 1998, the Company maintained its leadership in the development of new products, technology and services. Shaw will continue to change as technology allows and our customers demand.
In fact, fiscal 1999 is destined to be one of the most momentous years in our history - bringing significant corporate changes that will ideally position each of Shaw's cable, fibre, satellite and programming components for the new millennium. But in one significant way we will never change: Shaw will always be dedicated to delivering the highest quality products and services to its customers.

JR Shaw


cable systems
Shaw Cablesystems
SHAW@HOME
DMX
Advertising Services
Help

"Digital cable provides the customer with better product. It gives them what they've wanted for the last five to ten years - a crystal clear picture with CD-quality sound. Shaw is really in the forefront with digital cable."

Collin Gilbert
Installer

You're in your livingroom, surrounded by an audio feast served up in concert with a premium quality visual buffet on your home theatre. That wildlife TV show is awesomely real. Your four year old son is captivated, entranced - touching the screen as though the cheetahs were in the room with him. You enhance the magic by clicking a button that instantly transforms the TV screen into a high-speed website. Another click and you have all the information you need to teach him about the fastest land animal in the world. Welcome to a new world where entertainment and education are one.

interactive cable
what a future!

c a b l e

SHAW CABLESYSTEMS G.P.

Shaw's cable television business continues as one of the most profitable in Canada and its growth rate is second to none – propelled by a variety of programming, technological and customer service enhancements that have seen the Company's core business rapidly evolve from a one-way cable-delimited road to a multi-level, speed-of-light entertainment and communications highway.

Shaw's *clustering* strategy has paid powerful and continuous dividends for Shaw Cablesystems. By acquiring and expanding systems in clusters - large *clusters* in Canada's most attractive markets and smaller clusters linked by fiber and microwave for the balance of the Company's subscribers - Shaw is able to leverage its technology and infrastructure to achieve exceptional economies of scale.

SHAW CABLESYSTEMS

Building on the experience of previous years, enhancements in Shaw cable services combined with an aggressively innovative marketing program to once again increase market penetration - with basic subscribers increasing by approximately two percent or 28,000 households and a new Tier III Full Cable Service now enjoyed by over 750,000 households. But what stands behind these numbers and Shaw's high annual growth rates is a multiplicity of multimedia advances *and* the most dedicated customer service in any business.

Tier III a Success Since the launch of a new 12-channel package of specialty networks in October 1997, the Company has achieved an extremely high penetration rate that exceeded even the most optimistic forecasts. More than 60 percent of Shaw's subscriber base of 1,200,000 capable of receiving the service added the optional entertainment

package. New and existing subscribers were attracted to Shaw's Tier III offering by its value pricing of $5.99 per month, a two-month free preview period and Shaw's award-winning *Channel Up* marketing campaign.

A comprehensive training program and performance-based remuneration for the Company's Customer Service Representatives were also instrumental in setting new benchmarks for Tier III subscriptions - with Shaw's Call Centre achieving a remarkably high 75 percent sales rate.

What a future! Approximately 72% of Shaw Cablesystem subscribers are located high-growth areas of Calgary, Edmonton, the Greater Toronto Area, the interior of British Colum and on Vancouver Island.

Going to the Customer In the past year, Shaw has reached out to its customers by launching retail outlets in each of its service areas. These attractive kiosks and retail centres are located in high profile malls and cable system offices and provide a convenient point-of-presence for local subscribers. They make it easier for customers to have questions answered or pick up cable equipment. And the new retail kiosks offer an additional marketing platform for Shaw's products and services.

What a future! With cable market penetration at 81%, it takes innovative marketing t gain new customers. Shaw Cablesystems is doing just that. In each service area, Shaw service representatives contact potential and existing customers about either joining cable family or adding services. Other sales teams focus on multi-dwelling units, see longer-term contracts for the exclusive provision of cable services.

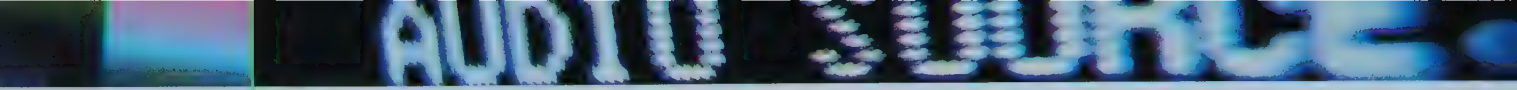
Mulitmedia in the Home During 1998, Shaw completed significant network upgrades to enable two-way cable transmission for the delivery of much anticipated new services such as Internet access, impulse pay-per-view and Web-TV. Bi-directional service is now available to the Company's subscribers in Calgary, Toronto, Barrie, Kelowna, Winnipeg, Saskatoon and most of Victoria – with the remainder expected to be *on-line* by December 1998, making all of Shaw's cable systems truly interactive. Moreover, the deployment of digital cable channels in Calgary and Toronto has delivered virtually unlimited channel capacity and the opportunity to offer many additional television and interactive packages to the Company's customers.

What a future! Experts predict that by 2005, approximately 75% of households will have internet access, with 75% of these users desiring a permanent, high-speed connection.

We think Shaw's success

"in adding subscribers to the basic tier, the new tier and the WAVE™ clearly warrants a premium valuation."

[Credit Suisse/First Boston]



Investing in Technology Shaw's commitment to fiber optic technology continues - with approximately 3,200 route kilometers (representing 200,000 kilometers of high-density fiber strands) already in place and much more planned for the next several years.

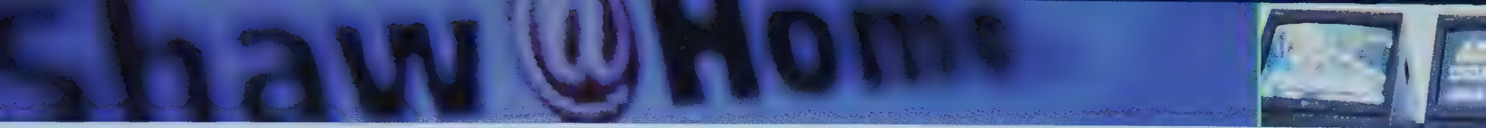
Shaw uses fiber optic technology to divide each of its large licensed areas into small neighbourhood nodes of 2,000 homes. Discreet signals can be narrowcast to each of these nodes, permitting the re-use of system bandwidth or channel capacity to accommodate rising requirements for high-speed Internet access or video-on-demand. Shaw's fiber infrastructure delivers vital competitive advantages by providing exceptional signal quality and reliability for cable customers and technologically positioning the Company for the continued growth of traffic levels and new multimedia services.

The integrity of the fiber optic delivery system is assured by the creation of redundant hub sites and fiber rings in each licensed area. The hub sites permit more efficient use of the fiber system and are configured in rings with route redundant cables which automatically reroute a signal to provide continued high-quality service to our customers if a cable should be cut or damaged.

What a future! System *clustering* and fiber optics have made it possible to achieve better signal quality *and* reliability and important economies of scale. Once separate operations, Shaw's Barrie, Richmond Hill, Orangeville, Scarborough and Pickering cable systems are now fiber-connected and share a single Head End. In addition, the Alberta Shaw systems in Calgary, Edmonton, Lethbridge and Red Deer are interconnected via fiber cables and share a digital Head End. On Vancouver Island, Shaw's systems in Victoria, Duncan, Nanaimo and Parksville share similar facilities.

Shaw's high-speed fiber-based digital video systems brought significant economies to the roll-out of the Tier III services as well as simplifying advertising insertion, program substitution and other video processing functions. In the future, they will facilitate continued expansion into new tiers of digital channels which require complex digital compression and encryption technology by allowing digital encryptors to be shared over a larger customer base.

Digital Cable Now a Reality In just over a year since Shaw became the first North American cable company to launch digital cable, the Company has exceeded forecasts by deploying more than 70,000 Digital Cable Terminals (DCTs) in Calgary, Red Deer, Barrie and Greater Toronto. The new digital service remains a Shaw exclusive and has rapidly gained tremendous consumer acceptance. In addition to increased signal quality, Shaw's digital



service dramatically expands the range of services offered via cable: Pay TV, 15 channels of impulse pay-per-view, the Navigator - Shaw's interactive program guide - and 30 formats of Digital Music Express (DMX) available in Dolby ™ Surround Sound.

Digital cable opens the door on an even broader menu of interactive applications. Shaw is actively assessing video-on-demand, Web browsing, e-mail, channel hyperlinking (which allows users to switch between a broadcast program and an Internet Web Site), and enhanced broadcast services which will make it possible for broadcasters to program interactive content.

Shaw expects to bring the new possibilities of digital to all its cable customers by the end of 1999.

SHAW@HOME

The market for high-speed residential Internet access is expanding exponentially as more and more consumers purchase personal computers and discover the benefits of accessing the Internet for entertainment, information and communication. In 1996, Shaw began leveraging its broadband infrastructure by participating in the national launch of WAVE™, a cable-delivered high-speed Internet access service. In April 1997, Shaw's Internet offering was enhanced through a partnership with the @HOME Network, using @HOME'S distributed network architecture and rich multimedia content. Initially launched as the "WAVE™", the service was again enhanced and relaunched in 1998 as SHAW@HOME.

By using sophisticated technologies which *cache* the most popular web sites locally to avoid internet congestion, SHAW@HOME makes it easy for customers to find the best content on the web and adds the richest of multimedia experiences - all at speeds dramatically faster than any other type of Internet connection.

What a future! Online Internet commerce is expected to exceed $220 billion by the end of 2001. Compare this with $2.6 billion in 1996!

SHAW@HOME provides customers with the highest-quality Internet service available and has already proven to be extremely popular. From a base of 1,000 subscribers in early 1997, SHAW@HOME is now enjoyed by over 50,000 subscribers with a 1999 sales target of 100,000.

What a future! When it comes to SHAW@HOME, seeing is believing. In an innovative and very effective marketing initiative, Shaw's sales staff is taking SHAW@HOME to malls and other high-profile locations in each of its service areas. The results have been astounding. Once people see the speed and rich content of SHAW@HOME, they're sold – with each event racking up hundreds of new customers.

Its' aggressive management team

"has taken numerous steps to build incremental value including: the ongoing roll-out of new cable-based products and services."

[CIBC Wood Gundy - October 16/98]

The Shaw Competitive Advantage The cable landscape is competitive and ever-evolving. Shaw is rigorous in establishing programs and initiatives that will continue to differentiate the Company from current and future competitors.

Customer satisfaction is Shaw's top priority. It must be the best - setting the highest standards for meeting the needs and expectations of each customer. That is why the Company has expanded its training and orientation program into an intensive five-day experience for all new employees that emphasizes interpersonal and customer communication skills and a knowledge of all aspects of the business. In conjunction with Shaw's *Cable University* training program, the Company has instituted the *Good Samaritan* program which recognizes and rewards employees who have "gone the extra mile" for customers.

Shaw has also enhanced its incentive program which has been very successful at reducing customer turnover and earning customer loyalty.

What a future! Shaw wants each customer to have a positive experience when dealing with the Company. Each employee is encouraged and empowered to take ownership for every process that involves customers. For SHAW@HOME customers alone, there are over 100 highly-trained technical service personnel available 24 hours a day to answer Internet-related questions.

Effective competitive positioning also requires a high level of consumer awareness about the Company and its roster of products and services. The Company's ongoing national advertising campaign does just that: positioning Shaw as a technologically advanced, multimedia service provider. It has raised the Company's profile and elicited strong, positive reactions from customers.

From the quality of the Company's products and services and exceptional customer service through to Shaw's extensive marketing efforts, we believe Shaw enjoys a unique image and reputation as a diversified entertainment, media and communications company.

DIGITAL MUSIC EXPRESS (DMX)

DMX is provided by DMX Canada and is 80 percent owned by Shaw. It is an advanced satellite-delivered music service for commercial and residential customers delivering commercial-free, CD quality sound in a variety of programming formats, 24 hours a day, seven days a week.

DMX for business DMX for business has been distributed in Canada since 1994 and offers commercial customers over 90 channels and nearly one million song titles in a variety

of languages. Since its introduction in 1996, the value-added DMX *on-hold* service has also proven quite successful. It allows businesses to promote new products or provide other information to customers by recording a special message over a music background.

Residential DMX Following a 1996 CRTC review and ratification of Shaw's residential DMX license, the Company launched a 30-channel DMX service for residential subscribers in the spring of 1997. Shaw Cable includes DMX as part of its digital offering and charges for the service at a high-penetration, low-cost package price. The response has been remarkable - with customers appreciating in-home CD quality and commercial free music 24 hours a day, seven days a week.

Residential DMX service is expected to enter a new growth phase in the coming months as Star Choice and other satellite and multipoint providers extend their delivery of broadcast services and cable operators invest in digital technology.

SHAW ADVERTISING SERVICES

This division provides local businesses and national advertisers economical, wide-coverage, high-frequency advertising in many different formats in over 100 communities. Advertising services range from channels featuring local text-only information interspersed by advertising to dedicated channels targeted to specific markets such as home shopping or real estate listings.

Since its inception, Shaw Advertising Services has achieved consistent growth in revenue and operating income, consistently generating operating margins in excess of 40 percent.

New Initiatives to Deliver New Profits Shaw intends to expand the scope, quality and value of its Advertising Services relative to competitive options. The 1998 launch of its enhanced TV Listing service was one such initiative. This service provides customers with greater reliability, flexibility and promotional advertising opportunities. A new format - which features video windows – increases advertising capacity significantly and is available on all major cable systems for promotion of Shaw's services.

New initiatives like this will generate additional revenue by substantially increasing Shaw Advertising Services' inventory of advertising space.

Shaw's ongoing cable network upgrade

"is at the forefront of the Canadian cable industry's."

[Bunting Warburg - June 8/98]

telecommunications

Shaw FiberLink
Shaw Paging

business communications
what a future!

Suit looks good. Tie is straight. You sit down at your office desk in Calgary and flip on your computer. Just like that, you've joined a board meeting originating 3434 kilometers away in Toronto. The meeting secretary requests some current business data and with a single button click, your high-speed FiberLink connection sends it instantly. That's business at the speed of light.

"Learning about new technology and being on the leading edge with Shaw's advanced systems and components allows me to do my job better and faster for our customers."

Jeff Faye
NMC Operator (FiberLink)

elecomunications

Shaw FiberLink is the business telecommunications division of Shaw Communications. Established in 1995 to take advantage of the opportunities in the multi-billion dollar communications industry - with a prime focus on the provision of data, video, voice and internet services to business on dedicated fiber optic link – Shaw FiberLink has grown rapidly and revenue should exceed $50 million annually by the year 2000.

FiberLink's customer base has doubled over the past 12 months with the introduction of new services in a broader array of markets across Canada. FiberLink products are sold under the trademarked brand names *FiberOne* – which includes all Data, LAN, Internet and Voice dedicated services – and *Bandwidth on Demand* - which is FiberLink's Asynchronous Transfer Mode (ATM) product for customers with non-regular data traffic.

SHAW FIBERLINK

As a Competitive Access Provider (CAP), Shaw FiberLink supplies businesses with fiber optic connections between their locations, within a metropolitan area. Information is the vital lifeblood of any business. FiberLink provides unprecedented information access, dissemination and security for a wide range of private and public sector organizations. Applications include local area network (LAN) computer communications, video conferencing, Internet access, head office to remote office billing system links, the movement of large data files between sites, and dedicated voice links.

Continued Expansion FiberLink continues to add new services and new markets across the country. The speed and flexibility of the fiber optic network provides a scalable platform for increased service. The Division's largest customers are Canadian long distance carriers such as AT&T Canada, Sprint Canada, ACC and Westel. These companies

use FiberLink to provide connections from their major long distance installations in a particular city to specific customer locations. Telecommunications service providers such as Clearnet and Microcell also use FiberLink to connect remote sites to their main facilities throughout the cities they serve.

What a future! In 1997, the CRTC opened up competition for local telephone services. As a provider of local dedicated circuits to business and to Canadian long distance carriers, FiberLink is ideally positioned for growth in this new market.

Solutions "To The Final Mile" The quality, speed and scalability of FiberLink's business information solutions are winning new sales from a diversity of Fortune 500 companies as well as government and educational institutions such as the Region of York, the Saskatoon Library System, Alberta Public Works and the British Columbia Government.

What a future! Fiber optics dispatch information from source to destination at the speed of light. A single fiber optic strand can carry five billion bits of information per second. Shaw has over 190,000 route kilometers of fiber optic strands in place and in action – with much more to come *at the speed of light.*

Advanced Architecture Shaw FiberLink uses the most advanced fiber optic digital technology. The network backbone is based on Synchronous Optical Network (SONET) and Asynchronous Transfer Mode (ATM) electronics – industry-standard, state-of-the-art technology for high speed communications transmission. Network performance and reliability is assured by fully redundant electronics with diverse fiber optic routing to ensure that no single component or link failure will cause a customer service problem.

Optimum system performance is guaranteed through Shaw's two Network Management Centres in Calgary and Toronto. From these centres, advanced computer systems and highly-trained technicians monitor every aspect of the network. And as *mirror sites,* each Centre can provide complete back-up of the Company's national network.

What a future! In Calgary, Shaw's extensive, high-capacity fibre optic network extends throughout the downtown core – running along every avenue in secure underground ducts. Every cable contains over 140 individual strands of fiber, each with the capacity to carry over 100,000 simultaneous telephone calls. Similar networks operate in the Greater Toronto Area, Winnipeg, Saskatoon, Victoria and Edmonton.

Within Canada, we view Shaw

"as a unique communications company. It is one of Canada's best run, multiple system operator (MSO), cable TV companies, and is in a strong position to benefit from future growth opportunities in cable TV, particularly high-speed Internet connectivity through PC cable modems and increased penetration of the telecommunications services markets." [Canaccord Capital – January 16/98]

A Growing Network Extensive high-density FiberLink networks blanket the cores of Calgary, Victoria and the Greater Toronto Area. In addition to these extensive local fiber optic networks, Shaw builds, owns and operates fiber optic facilities between its various service areas. In Ontario, the Company now offers continuous fiber optic coverage for all the major population areas surrounding the Greater Toronto Area including Pickering, Markham, Richmond Hill, Vaughn, Bolton, Orangeville, Barrie, Orillia, Stouffville, Keswick and Sutton.

In Alberta, the 300-kilometer fiber route linking Calgary and Edmonton (and all the population centres between) has been upgraded. Originally activated in 1996, escalating customer demand brought it to full capacity in just two years. The new link can handle four times the current level of activity.

This past year, a fiber link connection was constructed from Calgary, through Lethbridge to the US border to provide an interconnection point with American-based telecommunications carriers including AT&T US and Touch America.

Business Internet Gateway Since its inception in 1996, the Company's business Internet customer base has quadrupled each year. This service focuses on dedicated, high throughput access between businesses and FiberLink's Internet gateways. These gateways are interconnected via the circuits of Canadian long distance companies to North American Internet Access Points.

FiberLink's major Internet customers are either:

- business users – who require dedicated Internet links so their employees can access the Internet over corporate LANs;
- Internet Service Providers (ISPs) – who provide dial-up Internet service to residential and business users and purchase their upstream Internet access over a FiberLink dedicated link.

FiberLink's Future In addition to developing and marketing new fiber optic communications services for larger businesses, the division is also actively engaged in the creation of similar products at a price point that would make them attractive to smaller and home-based businesses. The division is also investigating economical means of bringing the benefits of "big pipe", high-speed fiber optic network connections to small business.

SHAW PAGING

Shaw provides paging services over state-of-the-art 900 MHz networks and high-density provincial and city-wide paging channels. In addition to offering a wide variety of paging options - including real time voice, tone, numeric and alphanumeric - Shaw Paging was the first national paging company to introduce alphanumeric transcription service, a unique service which allows customers to leave a complete voice message.

What a future! Currently a subscriber-based service with 128,000 customers across the country, Shaw Paging is shifting its focus to the high-potential commercial/retail market with a variety of co-branded "lifestyle" products.

Market Opportunity/Marketing Redirection Paging market penetration is 18 percent in the United States and 30 percent in some Asian markets but just 5 percent in Canada – that leaves plenty of room for growth. The most significant growth in the U.S. market has been in the consumer and retail sector. Paging has moved rapidly to take advantage of similar Canadian growth by leveraging paging with other Shaw consumer products such as radio, television broadcasting, cable television and residential Internet.

Beginning in 1997 and through 1998, Shaw Paging successfully launched co-branded pagers with other Shaw units such as CFNY-FM in Toronto, YTV and Shaw Cable. The CFNY-FM co-branded pager is typical of the marketing strategy employed. Named "The Edge" after the radio station, the pager is targeted at the 18 to 24 year age group which is the station's strongest listening audience. Paging continues to work with other Shaw units as well as other cable and television companies and retail distributors to develop similar co-branded products.

We have a strong commitment

"at Shaw to support our education communities and work closely with them to provide the best service, at the most competitive price."

[Robert Watson, President, Shaw FiberLink - August 26/98]


media
Programming
Radio
YTV
AUDIO SOURCE

"Shaw is a great company because they have already captured the potential of the future and made it available to our customers today"

Scott Phillips
On-air Personality

You flip on your car stereo looking for entertainment and a little bit more. The digitally-delivered sound is concert hall incredible. Finally, CD-quality radio that matches your audio expectations. Music how you want it, where you want it - the way you want it. Wow!

digital radio
what a future!

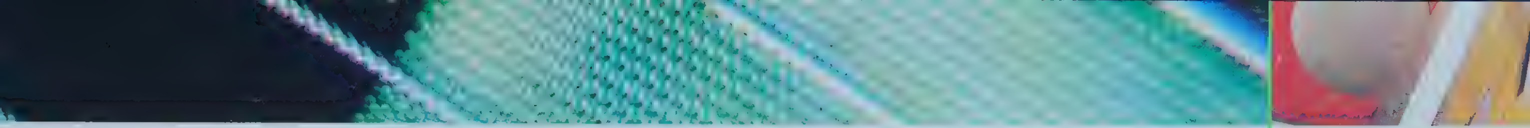
shaw media

Shaw has long held to the vision of creating a strong media company capable of competing successfully against dominant global players. The Company's strategy was key to developing and nurturing its media business - a business which has now reached a scale where separation of these assets is the necessary next step towards realizing their full potential. Consequently, under a proposed corporate reorganization, subject to regulatory and other approvals, the as yet unnamed media enterprise will become an independently operated, publicly traded company. The new company will accelerate the development and expand the immense potential of Shaw's programming and radio assets by providing direct access to capital for growth on the merits of its individual vision and strategies. The new media company will have annual revenues during its first full year of operation of approximately $260 million. As an investment vehicle, it will provide a unique opportunity for Canadian investors to participate directly in the fast-growing and dynamic specialty television sector.

Shaw's new media company is well positioned to play a leadership role in the evolving radio industry following the recently announced CRTC changes in ownership regulations. It will also make an important contribution to the development of Canadian-produced programming for domestic audiences and in export markets.

PROGRAMMING

The Company's programming interests are diverse - reflecting the diversity of audiences and customers it serves - but two stand out: YTV (The Youth Network) owned 100 percent by Shaw; and CMT (Country Music Television), 80 percent owned. Each of these has broad demographic appeal and, as a result, each contributes growing advertising revenues and significant cash flow.



Recently, the Company expanded its programming interests even further with the potential acquisition (through the WIC transaction, which is subject to CRTC approval) of a 50 percent interest in Family Channel, an additional 20 percent in Teletoon as well as 100 percent of Superchannel, Movie Max and Viewers Choice Pay Per View.

YTV is Number One YTV continues to rank as Canada's number one specialty network reaching over 9 million viewers each week. During 1998, YTV's subscriber base grew by 2.8 percent - keeping YTV on track toward its objective of becoming Canada's most distributed specialty service. The network's revenue growth was equally exceptional - up 15 percent over a year ago, driven by a sharp increase in advertising and other revenues.

YTV's unique brand of exciting and innovative entertainment appeals to children of all ages and their families. Since its debut in 1988, YTV has consistently delivered a mix of original programming, proven performers and outstanding Canadian talent. Its connections to Canadian youth are strong through such award-winning programs as the annual *YTV Achievement Awards,* a live telecast honouring the special accomplishments of young Canadians, and popular series such as *Goosebumps, Are You Afraid of the Dark* and *Reboot.*

What a future! YTV holds the broadcast rights to 18 of the top 20 children's shows in Canada. Five of these are Canadian productions commissioned by YTV.

YTV's program schedule boasts over 70 percent Canadian content in prime time. Since its inception, YTV has been one of the most active co-producers of children's and family-oriented programming in the world, working closely with a wide range of Canadian production companies and enabling over $500 million in Canadian programs. This dedication to country and quality has earned YTV more than 120 programming, on-air promotion and marketing awards, including 20 this past season.

Viewers of All Ages YTV's prime audience is viewers two to 17 years - but adults 35 years and over are a significant audience, as well. YTV viewers can also be found in the classroom. As a founding member of the Canadian Cable-in-the-Classroom project, YTV provides copyright-cleared programs that foster media literacy among students. The network also distributes highly-acclaimed lesson plans, at no charge, to thousands of Canadian schools - along with a newsletter highlighting relevant YTV programming.

What a future! Web Wizardry! YTV launched its website in 1997 and the results have been phenomenal. With three million hits a week and growing, the site has won several awards including the Web Canada Maple Award for outstanding design and content.

Shaw appears set to benefit

"from a change in radio ownership regulations. The CRTC recently freed up ownership restrictions. Shaw has stated that it expects to be a consolidator in the radio market."

[Bunting Warburg - June 8/98]

The Excellence Continues Already world-renowned for its powerful branding and programming excellence, YTV continually seeks to strengthen its core business and create new streams of revenue. This past year, the YTV brand was extended into new businesses - a toy line and computer software - and through event sponsorships such as the YTV Bust Out Tour. In addition to its lines of licensed merchandise, YTV is enjoying new revenue growth through strategic partnerships with advertisers, an increase in advertising content from eight minutes to 12 minutes per hour in family programs, and increased program sales of YTV produced/co-produced shows.

While seeking to enhance its growth potential, YTV will continue to deliver the quality programs that have made it the acknowledged leader in children's television.

What a future! The 1997 launch of TreeHouse TV clearly signalled YTV's strategy for positive growth. Wholly owned by YTV, TreeHouse TV is the first and only network dedicated to children under the age of six. Featuring the best in Canadian and international programs, it has already proven to be a hit with pre-schoolers across the country and is currently distributed to over 4 million homes.

As part of its continuing dedication to diversification and synergistic growth, Shaw has applied to the CRTC for two new stations aimed at teens and young adults: CHAOS and the "new rock" video service, EDGE TV

A Network of Investments Shaw also has interests in a number of the leading Canadian services (subject to CRTC approval):

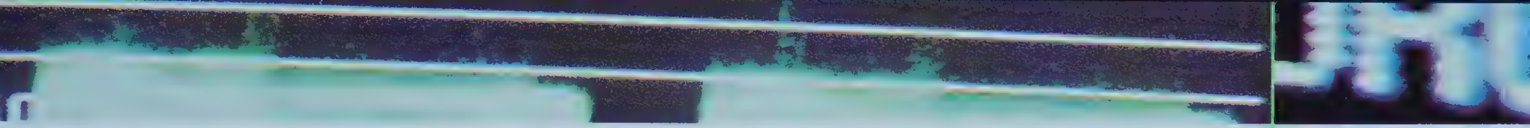
Family Channel (50 percent)* Canada's only commercial-free channel entirely dedicated to family-oriented entertainment and featuring the extensive programming library of the renowned Disney studios. From its inception, the Family Channel has been a ratings success.

Teletoon (40 percent)* A national animation channel (English and French) offering a colourful combination of animated entertainment with appeal to audiences of all ages. With Shaw's proposed acquisition of WIC, the Company's interest in Teletoon will increase from 20 to 40 percent.

The Comedy Network (14.95 percent) Places the spotlight on the world's funniest comedians and sitcoms and showcases the careers of great Canadian performers past, present and future.

Telelatino (20 percent) A general interest programming service for Canadian-Italian and Spanish audiences.

* Subject to CRTC approval.



CMT (Country Music Television) is World-class CMT is Canada's only 24-hour country music and entertainment network that combines music videos with entertaining artist programs, concerts and features. The strong CMT brand - combining a unique blend of Hot New Country with Folk, Celtic and Roots music - has long been recognized as the industry leader throughout the United States, Europe, Asia - and now, Canada. The proof is in the network's strong 1998 performance: In a year during which six new specialty channels were introduced, CMT reached its advertising sales objectives and retained its audience, especially among women 18 - 49.

What a future! In four short years, CMT has established itself as one of the most successful specialty networks in Canada. New programming and world-class specials continue to raise CMT to new levels of performance. The introduction of Austin City Limits and CMT Live on Tour were among many 1998 programming highlights – and 1999 will see even more excitement as CMT develops Canadian-based programming with the potential for strong sales in international markets.

CMT Canada is currently seen in more than 6.8 million Canadian households and is headquartered in state-of-the-art facilities at Shaw's Calgary-based main corporate office. CMT is a perfect fit for Calgary, one of Canada's fastest growing country music markets, and for Shaw's market-leading Alberta country music stations.

CMT successfully integrated a new in-house sales and marketing team in mid year. A major component of that team continues to be based in Toronto where it can focus most effectively on the needs of national advertisers.

Actively Supporting Canadian Artists Music videos have rapidly become integral to the music industry. Their popularity is immense and will continue to grow as more and more artists produce music specifically for video. Since it was launched in 1995, CMT has contributed nearly $2 million annually in support of artists and their video productions. This funding, along with the national exposure provided by CMT, has been instrumental to the careers of many Canadian artists. In 1998, Shaw and CMT supported more than 160 Canadian country artists through this program.

Reaching a New Level In addition to an outstanding line-up of music videos and short features, CMT is expanding its in-house production with a number of destination programs. Performance specials, award shows, a variety of interactive 'Countdown' programs, One-on-One, the Canadian Concert Series, CMT Beat Reports, and the new hosted CMT request line will continue to bring new viewers and new excitement to Canada's most popular specialty channel.

Shaw Launches Treehouse TV

"Continuing a long tradition of programming innovations, Shaw introduced Treehouse - the first pre-school network in the world - and achieved immediate distribution to over 4 million homes."

[Paul Robertson, President of YTV - January 7/98]

RADIO

Shaw's portfolio of radio properties once again enjoyed a banner year. Ideally situated in high growth urban centres in British Columbia, Alberta and Ontario, listenership remained strong in all markets.

Recently, Shaw added to its radio holdings by acquiring twelve stations in extremely attractive markets from WIC Western International Communications Ltd. (WIC) (subject to CRTC approval). With these acquisitions, Shaw became the first radio broadcaster in Canada to capitalize on the CRTC's new ownership regulations. The WIC radio stations are an excellent fit with Shaw's existing stations and position the Company strongly as a leader in the Canadian radio industry.

What a future! Shaw's radio stations achieve one of the highest operating margins in Canada. Radio is less capital intensive than cable thus allowing a significant portion of this Division's cash flow to fund other business activities.

Improved Operating Results Over the past decade, Shaw has substantially improved the operating results of its radio stations. Strong programming, research, sales and marketing have all had a beneficial impact - as have comprehensive cost controls, formats that target attractive audience segments and the efficient use of advertising inventory to cross-promote other Shaw products and services.

What a future! Radio stations compete on the basis of the overall number of listeners who tune in within their specific target group or prime demographic. Ratings are compiled by the Bureau of Broadcast Measurement (BBM) usually each spring and fall. This year, eight Shaw stations rated either number one or two in their prime demographic.

Advertising revenues were resurgent to strong in all markets in fiscal 1998, reflecting radio's return to positive growth in Canada's stronger economy. Local and national advertising was up in all markets.

A More Attractive Regulatory Environment In 1998, the CRTC revised radio regulations allowing existing licence holders to own more than one AM or FM station in a market – resulting in a stronger industry with more opportunity for well positioned companies like Shaw. These ownership changes are expected to result in radio garnering a significantly larger slice of the advertising pie.

Formatted for Success Shaw's radio success is based on applying the right format for individual markets. Take Alberta, for example: In this western province, widely known as Canada's most intense Country Music market, Shaw's Country-oriented radio stations in Calgary (CKRY-FM, Country 105), Edmonton (CISN-FM, Country 104) and Red Deer (CKGY-AM, Alberta's "Heritage" Country Music Station), are consistently number one in their markets - and multiple award winners, as well.

Shaw's extensive radio experience gives the Company the unique capacity to assess markets and apply the radio format with the most potential for sustained success. In this past year, a number of the Company's stations were re-formatted for improved results:

ENERGY 108 in Burlington was revamped and the station reintroduced in a new CHR (Contemporary Hit Radio) format. The first such format in North America, it is targeted to female listeners between the ages of 18 and 34 years. Potential listenership should increase as a result of the new format and the construction of a new transmission tower which has enhanced the signal quality.

CKDK-FM Woodstock has long been the top station in Oxford County. Its leadership position has been solidified by a format revision to Energy Radio aimed at winning a broader audience.

Other Shaw stations continued to achieve significant success in their markets:

CFOX-FM was once again one of Vancouver's most popular young adult FM stations -- playing a leading role in contemporary rock music and in the community as the 1997 winner of the British Columbia Broadcaster's Association Award for Creative Excellence and Community Involvement for its fundraising activities.

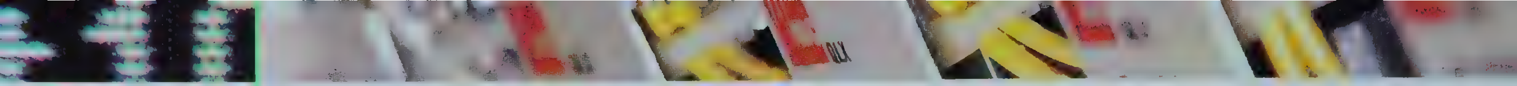
CKLG-AM in Vancouver built on its successful 1997 transition to contemporary adult music by providing programming diversity and variety in music entertainment that won many new adult listeners.

CIZZ-FM in Red Deer has been a national and local award-winning radio station since its inception in 1987. It has received dozens of radio industry awards including three as 'Canada's Radio Station of the Year' and boasts a new FM transmitter and state-of-the-art

Shaw's operating margins

"hover at around 35%, which is outstanding. More than half the radio stations in Canada don't make money, and most operate with significantly lower margins."

[CIBC Wood Gundy - October 16/98]



mobile studio. In 1997, CIZZ-FM and sister station, CKGY-AM were voted 'Business of the Year' by the Red Deer and District Chamber of Commerce.

CFNY-FM 'The Edge' in Toronto became English Canada's most listened-to rock music station in the fall of 1996 and has been building on its over 800,000 listeners every year since. The station is extremely successful at reaching the 18 to 34 year old market with its innovative rock programming.

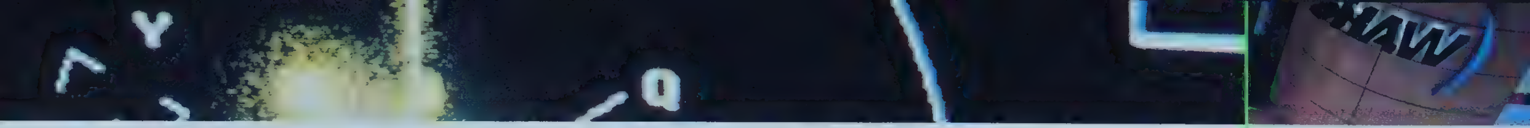
CHAY-FM in Barrie has long been the most listened-to radio station throughout central Ontario. Once again in 1998, it achieved number one status in a highly competitive market and its news coverage continues to garner significant recognition and awards.

Digital Radio is Here The long-awaited digital radio revolution has arrived: Shaw's Toronto stations will be broadcasting in both analog and digital upon completion of a new multi-station transmitter site this fall. Vancouver is next - with digital transmission scheduled to begin at Shaw stations next spring.

Digital transmission has been eagerly awaited by radio broadcasters. It enables them to enrich the services currently provided to listeners and benefit broadcasters by improving radio's ability to compete with other digital electronic media.

> What a future! Digital radio provides CD quality music and data casting for the transmission of information including traffic messaging and paging, as well as a variety of specialty services for commuters. Its reliability comes from its "smart" receiver – a computer chip able to differentiate between essential signals and useless noise

Canada is a world pioneer in digital radio and Shaw is a founding member of Digital Radio Research Inc. (DRRI), a tripartite body comprising the Government of Canada (Heritage Canada and Science and Technology), the Canadian Broadcasting Corporation and private members of the Canadian Association of Broadcasters. Shaw's investment in DRRI has provided the Company with access to the latest digital radio technology from around the world. Delivery of digital radio is through Eureka 147 transmission, the internationally accepted technology.



MOBILE SATELLITE STUDIOS

Shaw pioneered the use of mobile satellite studios with 1989's "CISN Caravan" in Edmonton, followed by others in Vancouver, Toronto and Calgary. These self-contained mobile radio stations with satellite uplinks have proven extremely successful and are in constant use in their communities. They allow Shaw radio to reach out into the community and establish an effective presence covering concerts, festivals and other community activities.

PROJECT DISCOVERY

Created by Shaw as a vehicle to develop and promote Canadian musical talent through national exposure, Project Discovery has used Shaw's comprehensive promotional and production facilities to produce over 800 videos for more than 900 talented performers. Talent searches are conducted by Shaw radio stations. Finalists are selected by Shaw and professionally produced Betacam and DAT videos are provided to the performers as promotional tools.

satellite

Star Choice Television

direct to home satellite
what a future!

You join your family at the cottage window to watch the sun set in a final blaze of glory beyond the calm lake. Ready for some entertainment of a different kind, you put the popcorn in the microwave and grab your remote control. With just a few button clicks, you've selected an evening's worth of the best episodes from a complete list of your family's favorite programs. Now, just sit back and enjoy.

"The evolution of the telecommunications industry continues to strongly embrace wireless solutions. Star Choice has the potential to provide every Canadian home with the best in entertainment services. For the first time, Canadians without a wired option have the same choices as a Shaw subscriber in an urban neighbourhood."

Damian Reid
Sales Manager (Star Choice)

s a t e l l i t e

Shaw believes DTH satellite technology is the best method of extending delivery of broadcasting services to Canadians in unserved and under-served cable areas and it is an ideal complement to Shaw's cable, two-way digital, fiber optic and other home and business services.

Star Choice has established itself as Canada's leading provider of satellite-delivered services. Its goal is to ensure that every Canadian has access to the widest possible choice of viewing options.

STAR CHOICE

Shaw's alliance with Star Choice created a powerful Canadian DTH competitor with the ability to implement nation-wide service efficiently and effectively, and the strength to be a market leader for decades to come. In a word, the alliance works.

In 1996, Shaw applied for a DTH license based on a strong business plan that addressed the need for a Canadian based satellite service. The CRTC awarded Shaw a license for its HomeStar DTH in January 1997. Two months later, the Company announced the merger of its DTH satellite television operations with those of Star Choice Communications.

The merger is extremely beneficial: Shaw's solid financial resources are a perfect fit with Star Choice's operational, distribution and marketing capabilities - ensuring a comprehensive, high quality and affordable DTH service for Canadians. These resources have allowed Star Choice to implement and develop its business plan, with its first year of results tracking projections and exceeding the targeted subscriber levels.

A Distinct Competitive Advantage Star Choice is one of two licensed DTH satellite operators distributing digital subscription video and audio programming services throughout Canada. The Company also provides uplink services to Canadian specialty and pay television programmers.

Star Choice's programming packages have been designed to maximize consumer interest, appeal, choice and control - at competitive prices.

Star Choice has a Canada-wide distribution network of 4,000 dealers including Radio Shack, Canadian Tire and Sears. Launched with an aggressive marketing campaign and the innovative "Star Tour '97" cross-Canada promotion program, Star Choice began its national roll-out of digital DTH services in October 1997. By the end of August 1998, Star Choice had over 109,000 subscribers.

Sky-high Technology Star Choice offers one of the highest quality and most comprehensive hardware and programming package available in Canada. It has access to 15 RF channels on Canada's Anik E-2 satellite which enable a satellite service of over 100 video and audio channels. Star Choice has adopted General Instruments' DigiCipher II digital compression technology to beam its programming to subscribers' 24-inch satellite-receiver dishes.

General Instruments is a world leader in systems for the interactive delivery of video, voice and data. Its DTH receivers deliver laser-disc quality video and CD-quality audio with an extensive selection of user features, including an interactive programming guide.

Sky-high Growth Star Choice expects to grow strongly over the next decade. There are currently over 11 million television households in Canada - about half are either unserved or under-served by cable or have chosen not to subscribe to a cable system. These are Star Choice's primary markets. Even in markets served by cable, Star Choice expects to do well. Its extensive programming options – including French language and other niche programming packages, all delivered in Dolby™ audio - will attract subscribers looking for a competitive offering or simply underserved in terms of cable channel capacity.

Highly focused strategy

"Star Choice is initially targeting unserved and under-served markets, but is already picking up urban customers in spite of a limited service offering. Its distribution network provides effective coverage of its target markets with over 3,500 points of sale."

(RBC Dominion Securities - September 11/98)

community

Community Programming
Cable-in-the-Classroom
Shaw Children's Programming Initiative

As a corporation and as individuals, Shaw is unreservedly committed to the communities it serves. Through community and charitable activities, community programming, radio promotions, sponsorships and in many other large and small ways, Shaw and its employees believe in making a difference.

Connecting to the community is important to Shaw on a multitude of levels. Corporate connections such as radio, cable, FiberLink and satellite are vital to the entertainment and communications life of the community. But the personal connections of Shaw's employees are at least equally vital. Each year, Shaw receives many letters and phone calls thanking and commending our employees for their community spirit and volunteer work. They bring meaning, substance and reality to the phrase, "What a future!"

COMMUNITY PROGRAMMING

Shaw is dedicated to the community as evidenced by its 27-year commitment to quality community programming and youth education. Since it began more than a quarter century ago, Shaw's community programming has evolved from a simple community message board into a vital cable television service. Community programming is an integral part of Canadian broadcasting and provides Canadians in communities large and small with a valuable source of local information and expression. This past year, Shaw took a quantum leap in community programming with the launch of its interactive **NowTV** services in Calgary and the Greater Toronto Area.

NowTV takes community/television interaction to a new level. Designed to be interactive and with the flexibility to tailor content to the rhythms and requirements of individual service areas, NowTV is a 24-hour smorgasbord of news, weather, financial and community information. Technologically sophisticated yet eminently "viewer practical"

Shaw Launches NOWTV

"the First-ever Local Information Channel. Canada's first-ever interactive local information channel gives Shaw customers everything they need to know about the city at a glance and around the clock. Featuring a multimedia format, NowTV provides video, data and text information on city and neighbourhood news, sports, events, business, lifestyle, weather and stock market reports." [Source Unknown - January 7/98]

NowTV is winning large audience share in every market - proof that NowTV is *not* a channel people view but one they *use!*

CABLE-IN-THE-CLASSROOM

Launched in 1995, this national initiative aims at educating students and parents about the enriched learning opportunities available on multimedia formats. Operated as a non-profit corporation, Cable-In-The-Classroom is a public service effort funded by a majority of Canadian cable operators and program providers. As a member, Shaw is committed to the distribution of educationally-relevant, copyright-cleared, commercial-free English and French language cable television programming services. At least one cable outlet will be installed in each publicly-funded school in Shaw's areas of operation. The Company provides continuous cable service at no charge.

SHAW CHILDREN'S PROGRAMMING INITIATIVE (SCPI)

This important initiative was established by the Company in 1994 as a means of contributing to the production of quality Canadian children's television program. Since that time, SCPI has committed over $10 million for the development and production of projects, many of which have gained national and international recognition.

Earlier this year, SCPI, in partnership with Canadian educators, launched TV & Me, a compelling, interactive program written by educators for educators, and designed for use in schools and communities. Targeted primarily to children ages nine to twelve, the program consists of pro-social commercial vignettes produced by Concerned Children's Advertisers, a non-profit consortium of 21 companies. Each vignette delivers a core lesson about life skills and media literacy that encourages open discussion about such subjects as self-esteem and peer pressure.

Shaw believes that television should be an enriching, positive part of childhood. SCPI and partnerships such as TV & Me will help to ensure that each child has the opportunity to learn, grow and succeed in making their dreams a reality.

management's discussion & analysis

Certain statements in this report may constitute forward-looking statements. Such forward looking statements involve risks, uncertainties and other factors which may cause actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

OVERVIEW OF RESULTS

The major divisions of the company, cable television, radio, programming and telecommunications all experienced good growth in revenue and operating income over 1997 as a result of an increase in the customer base, expansion of markets, the introduction of new products and services and rate increases. Paging results were impacted by the sale of the Message Management Centre and by competition. However, the growth in the division's subscriber base combined with the operational and administrative efficiencies implemented in 1998 have improved the division's ability to deal with the competitive challenges it will face in the future. Star Choice completed its first year of operations with encouraging results in terms of exceeding its targeted subscriber levels at August 31, 1998. Although losses were incurred and are anticipated to continue for the next two to three years, the development of the business is tracking in accordance with the initial business plan.

The 1998 year was highlighted by many significant achievements in terms of results and positioning the Company for future growth. These achievements are discussed in more detail in the individual operating sections.

CABLE TELEVISION

Review of Results	1998	1997
Total Revenue (including Internet)	611,027	542,308
Operating Income before Interest, Amortization and Income Taxes	275,072	256,615
Operating Income as % of Total Revenue	45.0%	47.3%
Revenue per Subscriber	$ 403.00	$ 365.00
Operating Income per Subscriber	$ 182.00	$ 173.00

Total revenue has grown by 12.7% as a result of the introduction of new services, in particular the launch of Tier III and SHAW@HOME Internet access, subscriber growth, and rate increases. The decline in operating income as a percentage of total revenue has occurred because of the lower margin on @HOME revenues in relation to other services, expenses connected with the rollout of digital cable terminals, increased sales and

marketing costs, and the higher rate of contributions to the Cable Production Fund which came into effect on January 1, 1998.

The new Tier III of twelve specialty services channels was launched in the Fall of 1997. The new package is available in combination with the other two tiers for $5.99 a month or on a stand-alone basis for $10.99, and is currently available in cable systems which serve approximately 1.2 million basic subscribers. The Company commenced charging for the service in March of 1998 when it had approximately 636,000 subscribers. At September 30, 1998 there were approximately 750,000 Tier III subscribers. This number is anticipated to grow to 1,000,000 subscribers by August 31, 1999.

The SHAW@HOME Internet access service was also launched in the fall of 1997 and has quickly grown to a service with approximately 50,000 subscribers. The monthly fee for the service is $39.95 and it generated $8 million of revenue in 1998 and approximately $1.4 million of operating income. The service is expected to grow to 100,000 subscribers by August 31, 1999. Due to its sophisticated and highly technical nature and initial high level of customer service involved, the operating income margin is lower than other cable services. These results should improve over the next two years as subscriber levels increase.

Subscriber growth is illustrated in the following table:

	August 31, 1998	August 31, 1997 Adjusted*	Growth	% Increase
Basic Service:				
Actual	1,507,589	1,478,631	28,958	2.0%
Penetration as a % of Home Passed	77.0%	77.4%	-	-
Full Cable Service:				
Tier I	1,329,158	1,320,850	8,308	0.6%
Penetration as % of Basic	88.2%	89.3%	-	-
Tier II	1,193,685	1,130,215	63,470	5.6%
Penetration as % of Basic	79.2%	76.4%	-	-
Tier III	724,222	-		
Penetration as % of available basic homes	60.4%	-	-	-
Pay TV:				
Actual	97,937	122,266	(24,329)	(19.9%)
Penetration as % of Basic	6.5%	8.3%	-	-
SHAW@HOME Internet customers	38,358	-	-	-

*Adjusted for systems sold and acquired by Shaw during 1998.

The most significant growth areas in terms of basic subscribers were Alberta (Calgary and Edmonton) and Greater Toronto (Richmond Hill and area). Tier I subscriber levels maintained last year's penetration levels while Tier II subscribers grew as a result of ongoing sales and marketing activities. The decline in Pay TV is principally the result of the move of Family Channel from Pay TV to Full Cable Service Tier III.

The FCS rate increase of $1.20 per month implemented July 1, 1997 was in effect for the entire year in 1998. In addition, a monthly basic rate increase of $0.21 was effected on January 1, 1998 and a rate increase of $1.04 was implemented to FCS effective June 1, 1998. At August 31, 1998 the average monthly rate is $17.63 for basic cable (1997 - $17.80) and

$13.89 for FCS (1997 - $10.17). The decline in the basic rate reflects the higher basic rates in the south east Ontario systems sold during 1998. The higher FCS rate is the result of the launch of Tier III plus rate increases.

Cable operating expenses are comprised of the following:

(thousands of dollars)	1998	% of Total Revenue	1997	% of Total Revenue
Operations and administration	166,945	27.3%	138,128	25.5%
Network fees	124,916	20.4%	110,022	20.3%
Agreement and franchise charges	19,255	3.2%	17,130	3.2%
Copyright	13,646	2.2%	13,340	2.5%
Cable Production Fund	11,193	1.8%	7,073	1.3%
	335,955		285,693	

Operations and administration have increased as a result of a number of factors, particularly sales and marketing campaigns, including a national program to promote Shaw's products and services, higher staff levels and the costs of incentive- and performance-based compensation at the system and head office levels. Network fees have increased due to rate changes and the introduction of new services, particularly Tier III. The Cable Production Fund expense reflects the increased contribution rate which came into effect January 1, 1998. The current regulations require a contribution of 2% to 3% (depending on system size) of total broadcasting revenue to the Fund. In prior years, the contribution was based upon 50% of capital expenditure basic rate increases implemented under pre-1998 cable television regulations. The annualized increase, based on current year results, was $6.1 million or 85.6% over the previous year.

SYSTEM ACQUISITIONS AND DISPOSITIONS

Effective June 30, 1998, Shaw sold its cable television systems serving approximately 95,000 basic subscribers in Windsor, Chatham, Leamington, Smiths Falls and surrounding areas in Ontario and acquired the cable systems serving approximately 65,000 basic subscribers in Courtney/Comox, Campbell River and Kamloops, B.C. and Lethbridge, Alberta. The systems sold were valued at $185.9 million, and the sale resulted in an after-tax gain of $24.1 million. The cost of the purchased systems was $121 million. On an annualized basis in 1998, the systems sold by Shaw generated cash flows of $21.7 million versus $13.9 million for the acquired systems. The systems acquired are being integrated into Shaw's existing regional clusters on Vancouver Island and in British Columbia and Alberta. The systems sold were located in southwest Ontario outside of Shaw's main cluster of systems in the Greater Toronto area. At August 31, 1998 the sale of a further 14,000 subscribers in a number of small systems in Ontario was pending (subject to CRTC approval) for approximately $17 million. It is anticipated that this transaction will be completed in the first quarter of fiscal 1999.

CAPITAL EXPENDITURES

Total capital expenditures for the cable/telecommunications infrastructure were $221.9 million (1997 - $200 million) and represented 85% of consolidated capital expenditures in

1998. The majority of the expenditures consisted of continued upgrade of the cable systems, the expansion of telecommunications and two-way capability, increased fiber and the deployment of @HOME Internet access modems and digital cable television terminals. Consolidated capital expenditures are projected to be approximately $225 million in fiscal 1999 with continued emphasis on the development of the distribution system.

PROGRAMMING

(thousands of dollars)	1998	1997
Total Revenue	72,877	61,939
Operating Income before Interest, Amortization and Income Taxes	19,337	14,920
Operating Income as % of Total Revenue	26.5%	24.1%
No. of homes to which service is available:		
YTV	7.4 million	7.2 million
CMT	6.8 million	6.4 million

The growth in revenue is due to advertising increases and, to a lesser extent, an increase in affiliate subscriber fees. YTV's advertising revenue increased by 25.2% in 1998, while CMT's revenue grew by 10.4%. At YTV, a number of significant new advertisers were added as the network fine tuned its programming. CMT also modified its programming mix by increasing the amount of live programming and specials featuring country stars such as Shania Twain and Garth Brooks. Both networks experienced an increase in program costs as a result of the revisions. However, revenue growth was more than sufficient to offset this factor and enable the division to achieve a combined 29.6% growth in operating income.

Treehouse TV, offering programming targeted toward pre-school aged children was launched on November 1, 1997. The service does not have advertising. Its sole source of revenue is affiliate fees from cable television and DTH operators who carry Treehouse. Affiliate fees have been waived by Treehouse until October 31, 1998. Start-up and programming costs of approximately $2.5 million incurred during the current year have been included in deferred charges and will be amortized over five years commencing November 1, 1998.

RADIO

(thousands of dollars)	1998	1997
Total Revenue	51,617	41,118
Operating Income before Interest, Amortization and Income Taxes	17,781	14,630
Operating Income as % of Total Revenue	34.4%	35.6%

The strengthening of the Canadian economy, combined with the continued achievement of high ratings, has resulted in a strong 1998 performance for the division. Approximately 81% of the overall increase in revenue is due to the full year inclusion of the results of CKRY-FM (Calgary) and CING-FM (Burlington) which were acquired last year. In the Spring 1998 ratings, eight of the eleven Shaw stations were rated number one or two in their respective primary market demographic group.

TELECOMMUNICATIONS

(thousands of dollars)	1998	1997 Adjusted*
Total Revenue	19,748	10,760
Operating Income before Interest, Amortization and Income Taxes	4,864	2,008
Operating Income as % of Total Revenue	24.6%	18.7%
Operating Statistics:		
Fiber Points of Presence(1)	570	275
Fiber Sheath Kilometers(2)	3,289	2,448
Fiber Route Kilometers(3)	197,340	146,880

*1997 figures adjusted to exclude uplink operations sold during 1997

(1) Number of locations at which services are accessible by potential business clients.

(2) Length of the installed fiber network.

(3) Fiber network capacity in terms of the total of fiber strands.

Total revenue has increased as a result of a 31% growth in the number of customers and as existing customers increase the number of circuits used in response to new requirements for service. Shaw FiberLink has active regional networks in all the major centres in which Shaw Cable operates, including inter-city fiber links from Calgary to Edmonton, Richmond Hill to Barrie and Pickering, Victoria to Nanaimo, and Vernon to Kelowna. There is also a fiber link from Calgary to the U.S. border, with links to the fiber networks of AT&T and Touch America. The Touch America network permits access to Sprint, MCI, Worldcomm and other U.S. fiber carriers. These facilities represent a significant base for future growth in revenue.

Operating income has improved as the number of customers and revenue have increased, thereby enabling the division to spread the fixed portion of operating costs over a larger base. These fixed costs, including technical support and administrative expenses, do not increase in direct proportion to the growth in revenue.

PAGING

(thousands of dollars)	1998 Adjusted*	1997 Adjusted*
Total Revenue	19,101	21,061
Operating Income before Interest, Amortization and Income Taxes	2,458	2,703
Operating Income as % of Total Revenue	12.9%	12.8%
Paging subscribers at August 31	128,436	117,253

*Adjusted to reflect sale of the message management division

Competitive pressures and the sale of the Message Management Division account for the decline in paging revenue in 1998. Average monthly revenue per paging subscriber in 1998 was $12.96 compared to $15.03 last year.

The Message Management Division was sold effective February 1, 1998. Revenue to the date of sale in 1998 was $3.1 million (1997 - $7.8 million) and operating income was $400,000 (1997 - $1 million). The division was sold for $2.2 million, representing the approximate carrying value of this portion of the business.

A number of steps were taken to strengthen the division and to maintain the subscriber base in addition to the pricing adjustments made in the current year. A national advertising campaign was initiated to promote the service, as well as co-operative marketing activities

with other Shaw divisions. In addition, operating overheads were reduced through the elimination of 22 administrative and sales positions and the relocation of a number of paging offices to Shaw's cable facilities. The division has developed a distribution network through affiliations with electronics stores and similar outlets and is also utilizing the cable division's direct sales team to market its paging services.

SATELLITE

During the year, the CRTC gave approval to Shaw's acquisition of an approximate 54% interest in Star Choice. The approval included the conditions of structural separation and no cross directorships. The Company consolidated Star Choice's results for the month of February 1998 based on its absolute ownership interest. As a result of a review of the situation, Shaw sold 525,000 shares in Star Choice to reduce its ownership on a fully diluted basis to approximately 49%. Based on the fact that Shaw's interest is less than 50% and conditions attached to the approval by the CRTC, the Company will be accounting for its investment on an equity basis.

For the year ended August 31, Star Choice reported total revenue of $85.9 million and an operating loss (before interest, amortization and income taxes) of $42.2 million. The following table summarized the impact of Star Choice's results in the consolidated financial statements.

		(thousands of dollars)
(a)	Consolidated (February, 1998):	
	Total Revenue	6,361
	Operating loss before interest, amortization and income taxes	(4,069)
	Net Loss	(3,898)
(b)	Equity basis (March 1998 to August 1998)	(21,406)
(c)	Total impact on Consolidated Net Income ($0.34 per share)	(25,304)

Star Choice launched its DTH service in the Fall of 1997, and exceeded its targeted revenue and subscriber levels in its first year of operations. Total subscribers at August 31, 1998 were 109,231. As anticipated, the primary source of Star Choice's subscribers are in areas either unserved or underserved by other sources of television services. Star Choice utilized its national retailer distribution network and extensive marketing campaigns to acquire subscribers, and was successful in its "grey market" repatriation program.

OVERVIEW OF FINANCIAL POSITION

Total assets at August 31, 1998 grew to $3.2 billion primarily due to the WIC acquisition and a net growth of $118 million in property, plant and equipment. This growth was financed through operating income, sales of assets, and the issuance of Preferred Securities (COPrS) and Class B participating shares ("Class B Shares"). Total long-term debt net of cash and term deposits at August 31, 1998 was $1.325 billion representing a debt to cash flow ratio (based on annualized fourth quarter results) of 3.86 to 1, which compares very favourably to Shaw's counterparts in the industry. Interest rates on 92% of long-term debt at August 31, 1998 were fixed at an overall effective average rate of 9.19%.

Financing activities undertaken during 1998 included two issuances of Preferred Securities which yielded net proceeds of $543.9 million. The initial offering completed in October 1997 consisted of a Canadian private placement of $100 million and a U.S. public issue of $142.5 million U.S. The Canadian issue has an interest rate of 8.54% and matures in 2027, while the U.S. series bears interest at 8.45% and matures in 2046. The July, 1998 public issue of $172.5 million U.S. bears interest at 8.5% and matures in 2097. Because of the unique characteristics related to the security and maturity of the Preferred Securities, as well as the ability to defer interest payments and to satisfy deferred interest payments and/or the principal by issuance of Class B Shares, the Preferred Securities are treated as equity in the consolidated financial statements. This has created additional financial flexibility for the Company under its various debt instruments.

The U.S. denominated Preferred Securities are listed on the New York Stock Exchange (stock symbols SJRPRA and SJRPRB). In addition, effective July 1, 1998 the Company's Class B Shares were listed on the New York Stock Exchange (stock symbol SJR). This listing will provide the Company with access to additional sources of financing in future.

Shaw issued 12.3 million Class B Shares valued at $293.4 million in connection with the WIC acquisition (see Notes 5 and 9 to the consolidated financial statements). The Company also realized a net after tax gain of $36.2 million on the sale of various investment transactions. These sales are discussed in detail in the "Investments" section under "Other Transactions".

INVESTMENTS

ACQUISITION OF INTEREST IN WIC WESTERN INTERNATIONAL COMMUNICATIONS LTD. ("WIC")

In a private transaction on March 13, 1998, Shaw acquired 451,677.5 Class A voting shares of WIC representing approximately 49.96% of the outstanding shares of that class, as well as 1,323,916 Class B non-voting shares of WIC. Pursuant to a takeover bid on April 21, 1998, Shaw acquired 9,877,840 Class B non-voting shares of WIC. As a result of these and previous purchases, Shaw now owns 13,579,556 Class B non-voting shares representing, on a fully diluted basis, approximately 52% of the outstanding Class B non-voting shares of WIC. The total cost of the investment is approximately $600 million. To finance the investment, Shaw issued 12,250,367 Class B Shares valued at $293.4 million, with the balance funded by debt.

WIC is a Canadian public corporation involved in television and radio broadcasting, pay television, satellite network and wireless communication services. For fiscal 1998, WIC reported revenue of approximately $570 million. Shaw and CanWest Global Communications Corp. ("CanWest"), the other significant shareholder of WIC's Class B shares, have reached a preliminary agreement (subject to regulatory approvals) whereby CanWest would purchase the television broadcasting assets of WIC for $950 million and Shaw would acquire the balance of WIC's assets, including its radio, pay television and satellite network business and WIC Connexus, which is involved in wireless data and video distribution services. Until such time as the CRTC has rendered a decision. 372,902.5 of the

WIC Class A voting shares and 1,402,691 of the WIC Class B non-voting shares are being held in trust. The investment is therefore being accounted for on the cost basis.

The potential acquisition of WIC's twelve radio stations represents a significant opportunity to double the size of Shaw's radio division, making it one of the largest in Canada. WIC operates an AM and FM radio station in Vancouver, Edmonton, Calgary and Toronto, where Shaw currently has a total of seven stations, as well as in Winnipeg and Hamilton. Earlier this year, the CRTC amended the broadcast regulations to permit one operator to own two AM and two FM stations in major markets. It is expected that the combination of up to four stations in major markets will result in improved revenue and operating income through package advertising sales and operating synergies.

WIC's assets also include pay-television services Superchannel and Movie Max, Viewers Choice pay per view service, as well as a 50% interest in Family Channel and a 20% interest in Teletoon. These services are all carried on Shaw's Western Canada cable systems and will complement Shaw's existing specialty programming assets. WIC also owns a 53.8% interest in Canadian Satellite Communications Inc. ("CanCom"), which provides satellite relay services to more than 2,500 Canadian cable television systems. This investment provides Shaw with the opportunity to increase its presence in the satellite distribution industry. The other asset which would be acquired is WIC Connexus, a wholly-owned subsidiary of WIC which has a national license for wireless distribution of data and video. Shaw is still assessing the potential of this technology and whether or not it represents a long term strategic asset for the Company.

OTHER TRANSACTIONS

During the current year, Shaw divested its holdings in the shares of Microcell Telecommunications Inc. and Moffat Communications limited, as well as selling 400,000 of its 1.5 million shares of At Home Corporation. These sales generated cash proceeds of $104.3 million and an after tax gain of approximately $36 million. At August 31, 1998 the Company owned 1.1 million common shares of At Home and warrants to acquire a further 1 million shares at $10.00 U.S. per share and 2.1 million shares at $10.50 U.S. per share.

The Company acquired a 3% interest in Terayon Communications Systems and a 9.5% interest in Canadian Satellite Communications Inc. ("CanCom") during the current year. Terayon, a U.S. public corporation, manufactures cable television Internet access modems. Shaw has installed these modems in its Victoria system and has been very satisfied with their performance. Shaw also has warrants to acquire a further 3,000,000 shares of Terayon at $6.50 U.S. per share until December 31, 2003.

ASSET WRITE DOWNS AND PROVISIONS

As noted in the 1997 MD&A a review of the investment in TCI Music was undertaken by the Board last year and at that time it was decided to maintain the investment at the then current carrying value based on the positive outlook following the reorganization of that company.

An updated review of the progress and results of the reorganization to date are encouraging. However, in light of the current severe stock market correction, the Board decided that the carrying value of the investment should be reduced. Therefore, it was

decided to reduce the carrying value by approximately $30.3 million to $4.00 U.S. per share which approximates the current trading range of the shares.

As part of the Board's ongoing review of the carrying value of assets and future commitments, two areas were identified that required a provision for future losses. As part of a five year commitment in 1995 to launch CableSat, the Company has incurred $8.1 million of losses to date and CableSat is not expected to become profitable over the balance of the commitment. Therefore, $5.9 million has been provided for in respect of this commitment in the current year. The other area is the commitment that the Company made to establish the Shaw Children's programming Initiative as part of the acquisition of Cablecasting in 1993 and CUC in 1995. Initially, the Company considered various alternatives for the accounting treatment of this $27.5 million including capitalization of the commitment as part of the acquisition cost. It was finally decided to treat the funding of the commitment as an investment as it was believed to have the potential to provide a return on the funding.

After having expended approximately one third of the commitment with little or no return, the Company has reviewed the results to date and the outstanding commitment and determined that it is prudent to provide for the remaining cost of the commitment of approximately $22.6 million in its current results. In addition, $4 million relating to the cessation of operations of Sega Channel have been written off in the current year.

FOREIGN CURRENCY HEDGING TRANSACTIONS

At August 31, 1998, the Company had $135 million of bank indebtedness and $253 million of debentures payable in U.S. funds (see note 8 to the consolidated financial statements). The bank loans are repayable commencing February 28, 1999, while the U.S. debentures are repayable over a period of seven years commencing February 4, 2001.

As a result of transactions undertaken in 1998, Shaw is currently hedged on approximately 70% of the U.S. principal repayment requirements at an average exchange rate of $1.367 Cdn. In addition, U.S. funds for the annual interest on all U.S. denominated debt are provided through cross-currency interest rate swap agreements and an extendible forward purchase agreement (discussed below) at approximately the same exchange rate of $1.37. The cross-currency agreements are in effect over the respective terms of the U.S.$ debentures and bank loans, while the extendible forward agreement, under current market conditions, would terminate on March 31, 2003.

The two U.S. series of Preferred Securities amounting to $315 million issued during 1998 have terms of 49 and 99 years. Because of the long periods to maturity and the potential of redeeming the Preferred Securities via the issuance of Class B Shares, management has not hedged the principal redemption requirement. Dividends are payable quarterly on the securities and totals approximately $26 million U.S. per annum. During March, Shaw entered into a five year extendible forward purchase agreement to purchase $4 million U.S. quarterly at an exchange rate of $1.3705 Cdn. The U.S. funds are used to service the quarterly $3 million U.S. dividends on the October, 1997 Preferred Securities issue, with the balance for U.S. dollar bank loan interest. The counterparty to the agreement has the option to extend the agreement for a further five years on March 31, 2003. Shaw is currently

monitoring the market with a view to entering into a further agreement in respect of the July, 1998 Preferred Securities issue. In the interim, because of the recent downward trend in the value of the Canadian dollar, the Company has invested a portion of the July, 1998 issue proceeds in high-grade bankers acceptances to meet U.S. dollar Preferred Securities dividends and working capital requirements in fiscal 1999.

CREATION OF A NEW MEDIA COMPANY

On September 15, 1998, Shaw announced that its Board of Directors had approved in principle a plan to reorganize its assets into two independently operated publicly traded companies. The reorganization, expected to take six months to complete, is subject to the receipt of appropriate tax rulings, CRTC and other regulatory approvals, and approvals by Shaw's shareholders and debt holders.

The composition of the two companies after the reorganization will be:

- Shaw Communications would own the existing cable television business, serving approximately 1.5 million customers in markets including Victoria, Edmonton, Calgary, Saskatoon, Winnipeg and the Greater Toronto area; SHAW@HOME which currently provides high speed Internet access services to over 50,000 subscribers, and Shaw FiberLink which provides high-speed telecommunications services to businesses across Canada. The Company would retain its interest in the direct-to-home satellite company, Star Choice Communications Inc., and a controlling interest in Canadian Satellite Communications (Cancom) to be acquired from WIC. Shaw Communications would also retain its minority interests in the At Home Corporation and Terayon Communications Systems, a manufacturer of cable modems.

- The principal assets of the new company ("Mediaco") would include 23 Canadian radio stations (the 12 stations presently owned by WIC and the 11 owned by Shaw); specialty television assets comprising Shaw's interests in YTV, Treehouse and CMT Country Music Television; and WIC's Pay TV assets that include Viewers Choice Pay Per View, Superchannel and Movie Max. Mediaco would own equity positions in specialty networks Family Channel (50%), Teletoon (40%), Comedy Channel (15%), and Telelatino (20%). In addition, Shaw has filed applications with the CRTC for three new specialty networks: the Food Network, Chaos for teens, and the Edge, a new rock network. These networks, if approved by the CRTC, would be part of Mediaco.

After the creation of the new media company, annual revenues of Shaw Communications are estimated to be approximately $760 million. Mediaco will have annual revenues during its first full year of operation of approximately $260 million. Both companies anticipate that incremental revenue and operating income synergies will be achieved following the integration of the respective assets.

The creation of the new company would be accomplished by way of a court-approved plan of arrangement under which Class A Shareholders of Shaw Communications would receive, on a tax deferred basis, a proportionate share of the Class A Shares of Mediaco and Class B Shareholders of Shaw Communications would receive, on a tax deferred basis, a proportionate share of the Class B Shares in Mediaco. Class A and B Shares of the new company will contain attributes, including voting and "coattail" rights, similar to the existing Class A and B Shares of Shaw Communications. The share capital structure of Shaw Communications would be unaffected.

COMPETITION AND TECHNOLOGICAL CHANGE

The cable television business faces competition from entities utilizing other communications technologies and may face competition from other technologies being developed or to be developed in the future. In addition, recent regulatory and public policy trends favor the emergence of a more competitive environment.

Shaw's cable television systems generally compete with the direct reception of over-the-air local and regional broadcast television signals by antenna, and either compete or may in the future compete with other distributors of television signals to homes for a fee, including DTH satellite services, satellite master antenna systems ("SMATV"), multichannel, multipoint distribution systems ("MMDS"), local multipoint communications systems ("LMCS") and telephone companies offering cable service.

On May 1, 1997, the CRTC announced that telephone companies will be eligible to hold full-scale broadcasting distribution licenses as of January 1, 1998. As of June 16, 1997, telephone companies are permitted to file applications for broadcasting distribution licenses. Accordingly, it is anticipated that Shaw's cable systems will in the future face competition from telephone companies. To date, no telephone company has filed an application for a full scale cable broadcasting distribution license in the same authorized service areas in which Shaw provides cable service.

On May 8, 1997, the CRTC issued temporary broadcasting distribution licenses to Bell Canada ("Bell") and Telus Corporation ("Telus") for the purpose of conducting market and service trials within limited geographic areas. Such licenses will expire May 31, 1999. Bell Canada is authorized to provide a package of broadcasting and telecommunications services to a total of 3,500 subscribers in London, Ontario and Repentigny, Quebec and will be required to distribute the same programming services (the "Eligible Services") as authorized for distribution by the incumbent cable licensees. However, the rates Bell Canada may charge for the broadcasting services are not regulated. Telus is authorized to conduct two similar trials in suburbs of Calgary and Edmonton, Alberta to a total of 3,400 subscribers. Under the terms of the trial, Telus is required to distribute the Eligible Services but is relieved from the distribution and linkage requirements imposed upon incumbent cable television licensees, provided that each subscriber receives a preponderance of Canadian services. Bell has withdrawn from their trial, while Telus, although continuing to offer its service, has encountered some difficulties in introducing the digital aspect of its service.

DTH delivers programming by which signals are sent directly to receiving dishes from medium and high-powered satellites, as opposed to broadcast, cable delivery or lower powered transmissions. Two DTH operators, Star Choice (approximately 49% owned by Shaw) and ExpressVu, are currently providing DTH services in Canada.

MMDS delivers premium television programming by unobstructed line-of-sight microwave transmission to subscribers equipped with a special antenna. Historically, CRTC approval for MMDS service had been limited to a small number of rural areas in Ontario and western Canada. In October 1995, the CRTC announced that it would approve MMDS applications to compete with cable television service in a given service area. Subsequently, the CRTC granted licenses to Skycable Inc. and Image Wireless Communications to provide MMDS in certain cable service areas in Manitoba and Saskatchewan, respectively. Licenses have been issued to Look Communications Inc. to provide MMDS service in major markets of Ontario and Quebec and it commenced offering its services in Ontario during August. Look is focused on the multiple dwelling units market. Less than 10% of Shaw's subscribers are in this category and multi year agreements have been or are being entered into for the majority of these customers.

In February 1996, Industry Canada issued a call for LMCS applications. LMCS utilizes the 28 GHz range to provide wireless services which may include "wireless" cable television, Internet access, video teleconferencing and other multi-media services. Industry Canada issued licenses in November 1996 to three companies, (WIC Connexus, MaxLink Communications and RegionalVision) to offer LMCS services in different Canadian markets. WIC Connexus and MaxLink Communications are authorized to provide LMCS service in large urban centers, whereas RegionalVision is licensed to serve smaller rural areas. WIC Connexus launched a test-site for its LMCS service in Toronto in April 1997 and has announced that it is planning a commercial deployment in late 1998 or early 1999. MaxLink Communications and RegionalVision have not announced their specific launch plans or dates. In order to offer programming services to subscribers in competition with incumbent cable licensees, LMCS operators must first obtain broadcasting distributing undertaking licenses from the CRTC. To date none of the LMCS service providers has been licensed by the CRTC to operate a broadcasting distribution undertaking. As noted in the discussion of the Company's investment in WIC, Shaw is currently reviewing its potential ownership of WIC Connexus.

None of these competitors has had a material impact on Shaw's operations. Approximately 85% of Shaw's cable systems are concentrated in major urban markets having favourable demographics and growth potential, with the remainder in smaller clusters, linked either to each other or to larger markets. Through this clustering strategy, Shaw maximizes the benefits of operating efficiencies, enabling it to be a low-cost service provider, which is a necessary component in strengthening its competitive position. In addition, Shaw plans to continue the deployment of new technologies to increase channel capacity, take advantage of its existing infrastructure to expand the range and quality of its services and to expand its programming and non-programming services.

YEAR 2000

Shaw employs computer applications in a number of administrative and operational areas. The Year 2000 issue is being addressed within the Corporation through a team consisting of representatives from operations, finance, legal and information systems. Co-ordination and consolidated reporting of Year 2000 activities and status from all of the Corporation's stakeholders is centralized within the Corporation's Information Systems Group under the supervision of its Chief Information Officer. Common issues such as suppliers' ability to continue in business is also co-ordinated through the corporate office. Year 2000 program status is regularly reported to both the management group and to the Audit Committee of the Board of Directors.

The Company's administrative applications are predominantly commercial software solutions which are either already Year 2000 compliant, are expected to be made compliant during 1998, or are currently being replaced by compliant applications. Shaw's cable billing system is a customized product which the Corporation understands to be Year 2000 compliant. All administrative applications, not currently compliant, are expected to be compliant by December 31, 1998. Computer hardware and operating systems have been purchased from major computer suppliers, and it is anticipated that all of this equipment will be compliant through routine system upgrades by the end of 1998. Plant process systems and supporting technology is being identified and assessed at all sites. This effort will continue through 1998; upgrades and replacement will occur as necessary.

Costs incurred to date and planned for future Year 2000 related improvements have been included in Shaw's capital and operating expenditures, depending on their nature. Total projected costs, primarily for the replacement of capital equipment including those incurred to date, are projected not to exceed $2 million, and will be funded from Shaw's line of credit.

management's responsibility for financial reporting

The accompanying consolidated financial statements of Shaw Communications Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with the financial statements.

Shaw Communications Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded.

The Board of Directors is responsible for ensuring the management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board, and the majority of its members are outside unrelated directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

J.R. Shaw

Chairman of the Board and Chief Executive Officer

R. D. Rogers

Senior Vice President and Chief Financial Officer

To the Shareholders of

Shaw Communications Inc.

We have audited the consolidated balance sheets of **Shaw Communications Inc.** as at August 31, 1998 and 1997 and the consolidated statements of income and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 1998 and 1997 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in Canada.

Ernst & Young LLP

Chartered Accountants

Calgary, Canada

October 14, 1998

consolidated balance sheets

As at August 31 [thousands of dollars]	1998 $	1997 $
ASSETS *[note 8]*		
Current		
Cash and term deposits	22,047	-
Accounts receivable *[note 8]*	59,632	45,550
Income taxes recoverable	4,007	-
Prepaids and other	31,152	17,032
	116,838	62,582
Investments and other assets *[note 5]*	712,689	156,246
Property, plant and equipment *[note 6]*	997,274	879,391
Deferred charges	69,519	57,334
Subscriber base and broadcast licenses *[note 7]*	1,304,904	1,294,648
	3,201,224	2,450,201
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Bank indebtedness *[note 8]*	-	20,876
Accounts payable and accrued liabilities	146,501	116,740
Income taxes payable	-	17,536
Unearned subscriber revenue	37,666	35,779
Current portion of long-term debt	121,976	70,192
	306,143	261,123
Long-term debt *[note 8]*	1,225,273	1,408,059
Deferred credits	33,304	39,933
Deferred income taxes	220,092	161,012
Minority interest	815	698
	1,785,627	1,870,825
Commitments *[note 12]*		
Shareholders' equity *[note 9]*		
Share capital	548,077	5,521
Contributed surplus	657,118	362,410
Retained earnings	210,402	211,445
	1,415,597	579,376
	3,201,224	2,450,201

On behalf of the Board:

J.R. Shaw

Director

Heather Shaw

Director

see accompanying notes

consolidated statements of income and retained earnings

Years ended August 31 [thousands of dollars except per share amounts]	1998 $	1997 $
Revenue *[note 3]*	783,800	688,363
Operating, general and administrative expenses	467,953	395,201
Operating income before amortization *[note 3]*	315,847	293,162
Amortization *[notes 1, 6 and 7]*	147,007	108,842
Operating income before interest	168,840	184,320
Interest *[note 8]*	135,191	135,403
Operating income before the following	33,649	48,917
Gain on sale of cable systems *[note 4]*	69,750	-
Gain on sale of investments *[note 5]*	55,874	-
Asset writedowns and provisions *[note 10]*	(62,751)	(23,094)
Other revenue including dividends from investees	6,416	1,210
Income from continuing operations before income taxes	102,938	27,033
Income taxes *[note 11]*	71,420	26,815
Equity in Star Choice Communications Inc. loss	(21,406)	-
Minority interest	3,413	-
Net income from continuing operations	13,525	218
Discontinued operations *[note 2]*	-	16,374
Net income	13,525	16,592
Retained earnings, beginning of year	211,445	199,664
Dividends	(14,568)	(4,811)
Retained earnings, end of year	210,402	211,445
Earnings (loss) per share		
Net income from continuing operations	(0.01)	0.01
Discontinued operations		0.23
	(0.01)	0.24

see accompanying notes

consolidated statements of cash flows

Years ended August 31 [thousands of dollars except per share amounts]	1998 $	1997 $
OPERATING ACTIVITIES		
Net income from continuing operations	13,525	218
Non-cash items:		
Amortization	147,007	108,842
Amortization of long-term program rights	14,064	9,025
Deferred income taxes	55,140	11,505
Gain on sale of cable systems, net of current taxes	(68,450)	-
Asset writedowns and provisions, net of payments	59,885	23,094
Gain on sale of investments, net of current taxes	(51,174)	-
Equity in Star Choice Communications Inc. loss	21,406	-
Minority interest	(3,413)	-
Other	(4,304)	(937)
Cash flow from continuing operations	183,686	151,747
Net change in non-cash working capital balances related to operations *[note 15]*	(54,949)	42,328
	128,737	194,075
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(261,071)	(227,003)
Business acquisitions *[note 4]*	(121,055)	(71,321)
Proceeds on sale of cable systems	185,872	-
Proceeds on sale of investments and other assets	109,653	-
Acquisition of investments, net of share consideration	(332,570)	(72,466)
Additions to deferred charges	(40,188)	(27,498)
	(459,359)	(398,288)
FINANCING ACTIVITIES		
Increase in long-term debt	391,000	497,112
Long-term debt repayments	(540,646)	(319,918)
Proceeds on issue of debenture purchase warrants	-	31,388
Preferred Securities issued net of expenses and related taxes	537,754	-
Issue of Class B Shares	5	-
Preferred shares redeemed	-	(2,840)
Dividends	(14,568)	(4,811)
	373,545	200,931
Net increase (decrease) in cash during the year	42,923	(3,282)
Cash position, beginning of the year	(20,876)	(17,594)
Cash position, end of the year	22,047	(20,876)
Cash flow from continuing operations per share *[note 15]*	$ 2.30	$ 2.17

Cash position represents cash and term deposits less bank indebtedness.

see accompanying notes

1. SIGNIFICANT ACCOUNTING POLICIES

Shaw Communications Inc. (the "Company") is a public company whose shares are listed on the Toronto, Alberta and New York Stock Exchanges. The Company is a diversified Canadian communications company whose core business is providing cable television services in Canada. Other business activities consist of media, including radio broadcasting and programming services, together with telecommunications and paging. The consolidated financial statements are prepared by management on the historical cost basis in accordance with accounting principles generally accepted in Canada.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

BASIS OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and those of its subsidiaries, all of which are wholly-owned except for 3247236 Canada Inc., (80% owned) which operates the Canadian Country Music video specialty television network, CMT.

The results of operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

Investments in entities over which the Company exercises significant influence are accounted for using the equity method. Other investments are recorded at cost and written down only when there is evidence that a decline in value that is other than temporary has occurred.

Acquisitions subject to CRTC approval are recorded at cost until approval is received and then accounted for according to the nature of the investment made.

INCOME

Income from cable television services includes earned subscriber service revenue prior to any network fees. Subscriber service charges billed or paid for in advance are recorded as income when earned. Radio and media advertising revenue is recognized in the period in which the advertising is aired.

PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are recorded at cost. Amortization is recorded on a straight-line basis over the estimated useful lives of assets as follows:

Asset	Estimated useful life
Cable and telecommunications distribution system	10-15 years
Converters and descramblers	7 years
Radio production equipment	10 years
Paging equipment	10 years
Buildings	20 - 40 years
Other	3 - 10 years

DEFERRED CHARGES

Deferred charges primarily include (i) financing costs and credit facility arrangement fees related to the issue of long-term debt amortized over the period to maturity of the related debt; (ii) marketing costs incurred to launch new specialty networks and services amortized over a two year period commencing with the commercial offering of the service; (iii) first year start-up and operating costs of new specialty programming networks to be amortized over five years commencing in 1999; (iv) foreign exchange losses on translating long-term debt; and, (v) program rights.

Rights to broadcast programs under various long-term contracts are recorded as assets and the related liabilities are recorded when the programs are available for telecast under a license agreement. The cost of each contract is amortized over its duration. Contract costs assessed as having no future benefit are fully amortized.

Programs produced by the Company are recorded at cost, including direct production costs and an appropriate share of overhead. These costs are included in program rights and are fully amortized as played, over a maximum period of three years. Any income earned relating to the sale of these programs is recorded as program distribution revenue over the life of the related contracts.

Amortization provided in the accounts on deferred charges, excluding long-term program rights, for 1998 amounted to $15,587,000 (1997 - $4,510,000). Amortization of long-term program rights amounting to $14,064,000 in 1998 (1997 - $9,025,000) is included in operating, general and administrative expenses.

SUBSCRIBER BASE AND BROADCAST LICENSES

The excess of the cost of acquiring cable, radio, telecommunications and media businesses over the fair value of related net identifiable tangible and intangible assets acquired is allocated to goodwill. Net identifiable intangible assets acquired consist primarily of subscriber base and broadcast licenses. Commencing in 1992, amounts allocated to subscriber base on cable acquisitions are amortized using the increasing charge method with an interest rate of 4% over forty years. Amounts allocated to broadcast licenses and goodwill are amortized on a straight-line basis over forty years. These assets are written down if there is evidence of a permanent impairment in their value to the Company. The potential impairment of these assets is measured against the discounted value of future operating income before amortization, taxes and interest.

DEFERRED CREDITS

Deferred credits include (i) amounts received for debenture warrants that are being amortized against long-term interest expense on a straight-line basis over the period to maturity of the related debenture; (ii) foreign exchange gains on translating long-term debt; and (iii) mark-to-market adjustments in respect of interest rate swap obligations assumed as a cost of acquisitions and being paid over the term of the related swaps.

INCOME TAXES

Income taxes have been provided on the tax allocation basis whereby the provision for income taxes is determined on the basis of income and expenses included in the statements of income rather than the related amounts reported in the income tax returns of the Company and its subsidiaries.

PREFERRED SECURITIES

The Preferred Securities are unsecured junior subordinated debentures of the Company with terms ranging from 30 to 99 years. The Company has the ability to defer interest payments and to satisfy the deferred interest and redemption obligations through the issuance of Class B Shares. Accordingly, these securities are included in shareholders' equity as share capital and any payments thereon net of taxes are recorded as dividends.

FOREIGN EXCHANGE

Long-term debt denominated in U.S. dollars is translated into Canadian dollars at the year end rate of exchange. Exchange gains or losses on translating long-term debt are deferred and, except for hedged debt, amortized on a straight-line basis over the remaining life of the debt and are included in deferred credits or deferred charges.

FINANCIAL INSTRUMENTS

The Company uses derivative financial instruments to manage risks from fluctuations in exchange and interest rates. These instruments include interest rate and cross-currency exchange agreements, forward foreign currency purchase agreements and foreign currency purchase option agreements. All such instruments are only used for risk management purposes. The Company accounts for these financial instruments as hedges and as a result the carrying values of the financial instruments are not adjusted to reflect their current market value. The net receipts or payments arising from

financial instruments relating to the management of interest risks are recognized in interest expense over the term of the instrument. Foreign exchange gains or losses arising on cross-currency agreements used to hedge U.S. dollar denominated debt are deferred until the maturity of the agreement.

2. RETENTION OF DISCONTINUED OPERATIONS

In 1996, the Company attempted to sell its paging and messaging assets by way of a formal auction process. No satisfactory bids were received and in 1997 the Company withdrew the paging and messaging assets from the market. Concurrently, the Company re-evaluated the paging division's assets and recorded a $23,094,000 impairment write-down in the accounts as a charge against continuing operations. As a result, the paging division's results have been included in continuing operations for 1997 and the estimated loss on disposal of the paging division was reversed and classified as part of discontinued operations.

3. DIVISIONAL INFORMATION

For information purposes, the following schedule sets out revenue and operating income on a divisional basis. Satellite operations were consolidated from the date of CRTC approval for the acquisition (February 1, 1998) until the Company commenced to equity account for the investment (March 1, 1998).

	1998			1997		
	Revenue	Operating income before amortization		Revenue	Operating income before amortization	
(thousands of dollars)	$	$	%	$	$	%
Cable television	602,665	273,691	45.4	542,308	256,615	47.3
Programming	72,877	19,337	26.5	61,939	14,920	24.1
Radio	51,617	17,781	34.4	41,118	14,630	35.6
Telecommunications	19,748	4,864	24.6	14,155	3,250	23.0
Paging	22,170	2,862	12.9	28,843	3,747	13.0
Internet	8,362	1,381	16.5	-	-	-
Satellite	6,361	(4,069)	(64.0)	-	-	-
	783,800	315,847	40.3	688,363	293,162	42.6

4. BUSINESS ACQUISITIONS AND DIVESTITURES

A summary of net assets acquired through business acquisitions, accounted for as purchases, is as follows:

[thousands of dollars]	1998 $	1997 $
Identifiable net assets acquired at assigned fair values		
Working capital (deficiency)	(1,538)	2,702
Property, plant and equipment	20,596	2,766
Subscriber base	101,997	-
Broadcast licenses		47,361
	121,055	52,829
Deferred income taxes	-	1,394
Minority interest	-	631
	-	2,025
Purchase price	121,055	50,804

Effective June 30, 1998 the Company purchased cable television systems in Courtney/Comox, Powell River and Kamloops, British Columbia and Lethbridge, Alberta for $121,055,000 and sold its cable television systems in Windsor, Chatham, Leamington and Smith Falls, Ontario for $185,872,000, resulting in a pre-tax gain of $69,750,000.

In 1997, the Company purchased radio station CKRY-FM ("Country 105") in Calgary, Alberta for $17,764,000; 80% of CMT Canada, the Canadian country music video specialty network for $27,485,000; radio station CING-FM in Burlington, Ontario for $5,555,000; and paid the balance due on acquisitions made in 1996.

5. INVESTMENTS AND OTHER ASSETS

[thousands of dollars]	1998 $	1997 $
Investments, at cost:		
WIC Western International Communications Ltd. ("WIC")	594,959	19,973
TCI Music, Inc. ("TCI") (market value - $13,113; 1997 - $19,460)	11,400	41,695
At Home Corporation ("At Home") (market value - $50,208; 1997 - $39,823)	15,323	20,818
Terayon Communication Systems ("Terayon") (market value - $8,692)	10,767	-
Canadian Satellite Communications Inc. ("CanCom") (market value - $14,516)	16,451	-
Moffat Communications Limited	-	12,227
Microcell Telecommunications Inc.	-	10,401
Media investments, at cost:		
Headline Sports Television Network (47.8% interest)	7,764	7,704
Telelatino Network Inc. (20% interest)	738	-
The Comedy Network Inc. (15% interest)	1,345	-
Teletoon Canada Inc. (20% interest)	400	-
Investment, at equity:		
Star Choice Communications Inc. ("Star Choice")	40,558	31,322
Employee home relocation mortgages and loans	11,436	10,471
Deposits and sundry investments	1,548	1,635
	712,689	156,246

WIC

WIC is a Canadian public corporation involved in television and radio broadcasting, pay television, satellite network and wireless communications services. During 1998, the Company acquired 451,677.5 of WIC's Class A voting shares (49.96% of total outstanding) in a private transaction and 12,802,656 Class B non-voting shares through open market purchases and a take-over bid for $281,590,000 in cash and 12,250,367 Class B Shares of the Company. At August 31, 1998 the Company owned 13,579,556 Class B non-voting shares, representing approximately 52% of the total outstanding Class A and Class B shares, in aggregate. The Company and CanWest Global Communications Corp. ("CanWest"), who owns approximately 46% of the Class B non-voting shares, have entered into a preliminary agreement, subject to CRTC and other regulatory approvals, whereby WIC would sell its television assets to CanWest and the Company would acquire WIC's radio, specialty/pay channels and satellite assets. Pending completion of the regulatory process, the Company is accounting for its investment in WIC on the cost basis.

TCI

TCI is a U.S. public corporation which operates a satellite-delivered digital music service in the U.S. in which the Company owns 1,900,000 common shares. As a result of management's ongoing review of this investment, a $30,295,000 writedown was recorded in 1998.

AT HOME

At Home is a U.S. public corporation which developed and provides the high speed Internet access service @HOME. The Company and Rogers Communications Inc., have the exclusive right to distribute the @HOME service in Canada to their respective cable subscribers and have the right to sub-license other cable companies to distribute the service in Canada. Under its agreement with At Home, the Company received warrants to purchase 1,000,000 Series A common shares of At Home at $10.00 U.S. per share on April 11, 2004 or earlier upon achievement of certain performance milestones with respect to the distribution of the @HOME service in Canada. In 1998, the Company

received warrants to purchase a further 2,100,000 Class A shares at $10.50 U.S. per share exercisable upon the achievement of targeted @HOME subscriber levels. This agreement is in effect until March 31, 2008. At August 31, 1998, warrants entitling the Company to purchase 522,395 At Home shares had vested under the terms of the two warrant agreements. The Company holds 1,100,000 class A common shares in At Home.

TERAYON

Terayon is a U.S. public corporation involved in the development and sale of cable television internet modems. During 1998, the Company acquired 583,390 common shares of Terayon and has warrants to acquire a further 3,000,000 common shares at $6.50 U.S. per share until December 31, 2003.

CANCOM

CanCom, approximately 54% of which is owned by WIC, is a Canadian public corporation involved in the satellite network communications industry. Its principal business activity is the delivery of television signals to Canadian cable television systems. At August 31, 1998 the Company owned 951,800 common shares acquired through open market purchases, representing a 9.5% interest.

STAR CHOICE

Star Choice, a Canadian public company listed on the Vancouver Stock Exchange, is a direct-to-home ("DTH") satellite operator distributing digital subscription video and audio programming services throughout Canada. Star Choice also provides television signal uplink services to Canadian specialty and pay television providers, and in 1998 received CRTC approval for a license to provide broadcast signals to cable television operators and other distributors. The Company's interest in Star Choice at August 31, 1998 consists of 14,312,594 common shares (market value - $41,507,000) representing a 49.9% interest on a diluted basis, $25 million U.S. of Senior PIK non-voting Preferred Shares and 1,562,970 warrants to purchase a similar number of common shares at $0.01 each. During the year, 525,000 common shares were sold for $1,576,000 resulting in a gain of $1,380,000.

DISPOSITIONS OF INVESTMENTS

In 1998, the Company sold its entire holdings of shares in Microcell Telecommunications Inc. and Moffat Communications Limited and 400,000 shares of At Home for $104,339,000 in total resulting in a pre-tax gain of $55,874,000.

6. PROPERTY, PLANT AND EQUIPMENT

	1998		1997	
[thousands of dollars]	Cost $	Accumulated amortization $	Cost $	Accumulated amortization $
Cable and telecommunications distribution system	999,386	247,211	839,347	188,358
Converters and descramblers	79,675	16,605	67,322	15,936
Radio production equipment	9,591	5,619	9,121	4,970
Paging equipment	35,154	11,203	39,601	12,998
Buildings	98,266	21,613	92,854	17,515
Other assets	97,872	39,807	83,434	32,435
	1,319,944	342,058	1,131,679	272,212
Land	19,388	-	19,924	-
	1,339,332	342,058	1,151,603	272,212
Net book value	997,274		879,391	

Labour costs attributable to construction are capitalized as part of the distribution systems. In 1998, the amount capitalized was $28,878,000 (1997 - $23,481,000). Amortization provided in the accounts on property, plant and equipment for 1998 amounted to $113,041,000 (1997 - $86,418,000).

7. SUBSCRIBER BASE AND BROADCAST LICENSES

[thousands of dollars]	1998 Cost $	1998 Accumulated amortization $	1997 Cost $	1997 Accumulated amortization $
Subscriber base	1,184,674	53,933	1,175,439	59,783
Broadcast licenses	189,967	15,804	189,930	10,938
	1,374,641	69,737	1,365,369	70,721
Net book value	1,304,904		1,294,648	

Amortization provided in the accounts on subscriber base and broadcast licenses amounted to $18,379,000 (1997 - $17,914,000).

8. LONG-TERM DEBT

[thousands of dollars]	Effective interest rates %	1998 $	1997 $
Mortgage, due in 1999	7.85	1,859	1,890
Mortgage, due in 2001	11.50	79	147
Debentures:			
1998 Series, due April 8, 1998	9.91	-	35,000
Series B, due July 29, 1999	10.80	60,000	60,000
2003 Series, due January 8, 2003	11.09	24,000	24,000
2003 (U.S.) Series, due February 4, 2003	9.23	77,463	69,390
2005 Series, due November 30, 2005	9.84	156,300	156,300
2007 Series, due March 19, 2007	9.22	45,000	45,000
2007 (U.S.) Series, due March 19, 2007	8.20	282,300	281,720
2008 Series, due January 8, 2008	11.33	42,000	42,000
Bank loans	Fixed and variable	603,585	688,595
Notes payable in annual installments of $19,546 on July 31	7.521	39,092	58,638
		1,331,678	1,462,680
Senior preferred shares		4,571	4,571
Convertible preferred shares		11,000	11,000
		15,571	15,571
		1,347,249	1,478,251
Less current portion		121,976	70,192
		1,225,273	1,408,059

Interest on long-term debt included in interest expense amounted to $137,089,000 (1997 - $135,403,000).

The effective interest rates on the 1998, 2003, 2003 (U.S.), 2007, 2007 (U.S.) and 2008 series debentures represent the coupon rates on those debentures plus interest rate adjustments related to amendments of financial covenants to conform with those contained in the Company's syndicated bank facility, reduced by the effect of amortizing the proceeds of debenture purchase warrants. The effective interest rate on the 2005 Series debentures represents the coupon rate on those debentures plus the cost of an interest rate hedge agreement. Cross-currency interest rate swap agreements have been entered into to fix the liability for interest payments on the 2003 (U.S.) and 2007 (U.S.) debentures in Canadian funds and to hedge $190.3 million U.S. of the $253 million U.S. principal repayment on these debentures at an average exchange rate of $1.374 Cdn.

DEBENTURES

Collateral for the Series B debentures is a first floating charge on all assets and undertakings of the Company other than accounts receivable which are assigned to the bank as collateral for the operating loan facility. The remaining debentures are collateralized by way of a floating charge on all the assets and undertakings of the Company ranking behind the Series B collateral. Collateral for the debentures, other than Series B, ranks pari passu with each other and

with the demand debenture described under bank loans. As at August 31, 1998, the Company was in compliance with the covenants it made in the trust indentures under which the debentures were issued.

Debentures outstanding are payable on their respective due dates, except as follows:

2003 (U.S.) Series ($50,000,000 U.S.)

Annual payments of $20,000,000 U.S. on February 4, 2001 and 2002 and $10,000,000 U.S. on February 4, 2003.

2005 Series

Annual payments of $52,099,834 on November 30, 2003 and 2004 and $52,099,832 on November 30, 2005.

2007 Series

Annual payments of $15,000,000 on March 19, 2005, 2006 and 2007.

2007 (U.S.) Series ($203,000,000 U.S.)

Annual payments of $67,700,000 U.S. on March 19, 2005 and 2006 and $67,600,000 U.S. on March 19, 2007.

2008 Series

Semi-annual payments of $2,100,000 commencing July 8, 2000 with the balance due January 8, 2008.

BANK LOANS

The Company has a $30,000,000 revolving operating loan facility collateralized by a general assignment of accounts receivable ranking in priority to all security on the debentures. Interest rates and borrowing options are the same as those contained in the credit facility described below.

A syndicate of banks have provided the Company with a credit facility for one billion dollars; $500 million is revolving until February 28, 1999 and revolving on a reducing basis thereafter until repaid by August 31, 2004. The balance of the facility is non-revolving term repayable in twelve semi-annual increasing instalments commencing February 28, 1999 such that the loan is repaid by August 31, 2004. In both cases, the loan reductions are in increasing amounts such that approximately 75% is due in the last three years of the term. The revolving facility available includes $40 million in the form of letters of credit as collateral for notes payable.

Funds are available to the Company in both Canadian and U.S. dollars. At August 31, 1998, the U.S. portion of the bank loans was $135 million U.S. The Company has entered into cross-currency interest rate agreements to fix the liability for interest and principal payments on $81 million U.S. ($108 million Canadian) of this amount.

Interest rates on $410 million of Canadian dollar borrowings and $81 million U.S. ($108 million Canadian) have been fixed by means of interest rate swaps at an average rate of 9.21%. Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptance and U.S. libor rates and averaged 8.24% for the year.

The banks hold as collateral a $1.5 billion floating charge demand debenture on all assets of the Company and a general assignment of book debts. This debenture ranks pari passu with the collateral granted pursuant to the trust indentures under which the debentures are issued, other than the Series B debenture. Under both the credit agreement and the trust indentures, the Company has undertaken to maintain certain covenants. The Company was in compliance with covenants it made under the bank loans at August 31, 1998.

Principal repayments on long-term debt in each of the next five years are as follows:

(thousands of dollars]		$
	1999	106,405
	2000	72,505
	2001	86,429
	2002	137,287
	2003	170,070
	Thereafter	758,982
		1,331,678

SENIOR PREFERRED SHARES

The Company is authorized to issue an unlimited number of senior preferred shares. The shares are issuable in one or more series with attributes designated by the directors, and are designated as floating rate non-voting cumulative retractable redeemable preferred shares. Dividends on these shares are cumulative and are based upon 50% of the average bank prime rate (subject to minimum and maximum rates of 4% and 6% respectively) with the exception of Series II, which have a dividend rate of 70% of the average bank prime rate. At August 31, 1998 and 1997, there were 960 Series II shares with a paid up amount of $96,000 outstanding and a total of 44,750 Series VIII and X shares with a paid up amount of $4,475,000 outstanding.

The Series II shares are currently redeemable at their paid up amount by the Company; the other Series are redeemable in the Company's 1999 fiscal year. All shares of these Series are retractable in whole or in part at their paid up amount by the holders at any time upon sufficient notice to the Company.

No senior preferred shares were redeemed by the Company during 1998 (1997 - 28,400 shares; $2,840,000).

CONVERTIBLE PREFERRED SHARES

The Company is authorized to issue an unlimited number of convertible preferred shares. The shares are issuable in one or more series with attributes designated by the Board of Directors, and are designated as cumulative redeemable retractable floating rate convertible non-voting preference shares. The convertible preferred shares pay cumulative dividends at 6%, are convertible into Class B non-voting participating shares at a price of $14.25 per Class B shares and are redeemable at their paid up amount of $25.00 per share commencing December 1, 1998, provided the average market price of the Class B shares during the thirty-day period immediately preceding the redemption is in excess of $17.81 per share. The convertible preferred shares are retractable at their paid up amount by the holders in whole or in part on June 1 or December 1 of each year. All outstanding shares must be redeemed by the Company on July 31, 2005.

9. SHARE CAPITAL

AUTHORIZED

In addition to the senior preferred shares and convertible preferred shares described at note 8, the Company is authorized to issue an unlimited number of Class A participating shares ("Class A Shares"), and Class B non-voting participating shares ("Class B Shares"), and Canadian Originated Preferred Securities ("Preferred Securities").

Class A Shares are convertible at any time into an equivalent number of Class B Shares. The Class B Shares, with a par value of $0.0167 each, are convertible into an equivalent number of Class A Shares in limited circumstances.

Preferred Securities rank as unsecured junior subordinated debt.

ISSUED AND OUTSTANDING

[thousands of dollars]			1998 $	1997 $
Number of Shares				
1998	**1997**			
5,760,186	8,832,182	Class A Shares	2,934	4,502
76,788,692	61,182,299	Class B Shares	1,280	1,019
		Preferred Securities -		
5,700,000		8.45% Series A	192,871	-
100,000		8.54% Series B	98,467	-
6,900,000		8.5% Series	252,525	-
			548,077	5,521

SHARE TRANSACTIONS

Class A Shares and Class B Shares

During 1998, 3,071,996 Class A Shares with a book value of $1,567,000 were converted to Class B Shares (1997 - 224,300 shares; $114,000); 12,250,367 Class B Shares valued at $293,396,000 were issued as partial consideration for the acquisition of shares of WIC (note 5), of which $293,192,000 represented the excess of the issue price over par

value of $0.0167 and was allocated to contributed surplus; and 284,030 Class B Shares (1997 - 11,683) were issued at $0.0167 per share pursuant to the Company's stock option plan.

Preferred Securities

During 1998 the Company issued the following series of Preferred Securities:

(i) U.S. $142.5 million 8.45% Series A Preferred Securities in denominations of U.S. $25 each due September 30, 2046 accruing interest from the date of issuance (October 2, 1997) payable quarterly commencing December 31, 1997. In March 1998, a five year extendible forward purchase agreement was entered into to provide sufficient U.S. funds to make the quarterly interest payments at an exchange rate of $1.3705 Cdn.

(ii) $100 million 8.54% Series B Preferred Securities in denominations of $1,000 each due September 30, 2027 accruing interest from the date of issuance (October 2, 1997) payable semi-annually commencing March 31, 1998.

(iii) U.S. $172.5 million 8.5% Preferred Securities in denominations of $25 each due September 30, 2097 accruing interest from the date of issuance (July 22, 1998) payable quarterly commencing September 30, 1998.

The Company has the right to defer payments of interest on the Preferred Securities for a period up to 20 consecutive quarterly periods provided that no extension period may extend beyond the stated maturity of the Preferred Securities. Except in certain limited circumstances, the Company may not pay or declare dividends on any of its capital stock (including capital stock classified as debt) (except by way of stock dividend) at any time when any interest on the Preferred Securities is either in default or is being deferred. There may be multiple extension periods of varying lengths, each of up to 20 consecutive quarterly periods, throughout the term of the securities. During any extension period, interest will accrue but will not compound. The Company may satisfy its obligation to pay deferred interest on any applicable interest payment date through the issuance to the trustee of Class B Shares of the Company, in which event the holders of the securities shall be entitled to receive cash payments equal to the deferred interest from the proceeds of the sale of the requisite Class B Shares by the trustee.

The Preferred Securities are redeemable, at the Company's option, in whole or in part, at any time after September 30, 2002 (8.45% Series A Preferred Securities), September 30, 2007 (8.54% Series B Preferred Securities), or September 30, 2003 (8.5% Preferred Securities) at a redemption price equal to 100% of the principal amount of the securities to be redeemed plus accrued and unpaid interest thereon to the date of such redemption.

The Company may satisfy its obligation to pay the applicable redemption price or the principal amount of the Preferred Securities plus accrued and unpaid interest thereon on the applicable payment date through the issuance of Class B Shares.

The principal amounts of the Preferred Securities, net of after tax issue costs totalling $9,352,000, have been classified as equity, and interest payments, on an after tax basis, are classified as dividends as the Company has the unrestricted ability to settle the amounts by issuing its own Class B Shares.

STOCK OPTION PLAN

Under a stock option plan, options are granted to senior officers and employees to acquire Class B Shares. The number of shares that may be issued under the plan varies depending upon the growth in market value of the shares. Options have been granted which could result in the issuance prior to August 2002 of a maximum of 1,905,875 (1997 – 2,299,250) Class B Shares at an issue price of $0.0167 per share provided that the average of the high and low trading prices of Class B Shares equals or exceeds $40.00 for five consecutive trading days.

DIVIDENDS

The holders of Class B non-voting participating Shares are entitled to receive during each dividend period, in priority to the payment of dividends on the Class A Shares, an additional dividend at a rate of $0.01 per share per annum but is subject to proportionate adjustment in the event of future consolidations or subdivisions of shares and in the event of any issue of shares by way of stock dividend. After payment or setting aside for payment of the additional non-cumulative dividends on the Class B Shares, holders of Class A Shares and B Shares participate equally, share for share, as to all subsequent dividends declared.

SHARE TRANSFER RESTRICTION

The Articles of Continuance of the Company empower the directors to refuse to issue or transfer any share of the Company that would jeopardize or adversely affect the right of Shaw Communications Inc. or any subsidiary to obtain, maintain, amend or renew a license to operate a broadcasting undertaking pursuant to the Broadcasting Act (Canada).

EARNINGS (LOSS) PER SHARE

Earnings (loss) per share are calculated based on the weighted average number of Class A Shares and Class B Shares outstanding during the year (1998 – 73,649,000; 1997 - 70,008,000) after deducting entitlements on the Preferred Securities, net of income taxes, from net income. The Convertible preferred shares and the potential number of Class B Shares issuable under the terms of the Company's stock option plan are not dilutive.

10. ASSET WRITEDOWNS AND PROVISIONS

As a result of the Company's ongoing review of the carrying value of certain assets and various commitments, the following asset writedowns and provisions have been made in the accounts:

[thousands of dollars]	1998 $
Writedown in carrying value of investment in TCI Music, Inc.	30,295
Provision for CableSat losses	5,859
Provision for Children's programming commitments	22,595
Write-off of net assets attributable to Sega channel on cessation of operations	4,002
	62,751

11. INCOME TAXES

Differences between income taxes calculated at Canadian statutory rates and the income tax provision are as follows:

[thousands of dollars]	1998 $	1997 $
Income taxes at Canadian statutory rates	38,140	12,138
Differences from statutory rates relating to:		
Amortization on amounts assigned to capital assets on business acquisitions not deductible for tax purposes	9,497	9,767
Large corporations tax	3,000	1,500
Non-taxable portion of loss on sale/writedown of assets	12,400	3,651
Equity loss, net of minority interest	8,079	-
Other	304	(241)
Income tax provision	71,420	26,815

The components of the income tax provision are as follows:

[thousands of dollars]	1998 $	1997 $
Current	16,280	15,310
Deferred	55,140	11,505
	71,420	26,815

12. COMMITMENTS

The Company has various long-term operating lease agreements for the use of transmission facilities and premises amounting to approximately $17 million per annum.

13. FINANCIAL INSTRUMENTS

The Company has determined the fair value of its financial instruments as follows:

(i) Current assets and current liabilities

The fair value of financial instruments included in current assets and liabilities approximates their carrying amount due to their short term nature.

(ii) Investments and other assets

a) The fair value of publicly traded shares included in this category is determined by the closing market values for those investments.

b) The fair value of other investments in this category approximates their carrying value.

(iii) Long term debt

a) The carrying value of the Company's bank loans approximates their fair value because interest charges under the terms of the bank loans are based upon current Canadian bank prime and bankers' acceptance rates and on U.S. bank base and Libor rates.

b) Mortgages and notes payable are repayable in less than five years and therefore carrying value is considered to approximate fair value for these instruments.

c) The fair value of the Company's debentures and its senior preferred shares and convertible preferred shares are based upon current trading values of similar instruments.

(iv) Derivative financial instruments

The fair value of interest and cross-currency interest exchange agreements and U.S. currency contracts is based upon quotations by the counterparties to the agreements.

The estimated fair values of the Company's long-term debt and related derivative financial instruments are as follows:

	1998		1997	
[thousands of dollars]	Carrying amount $	Estimated fair value $	Carrying amount $	Estimated fair value $
Long-term debt				
Debentures, loans and notes	1,331,678	1,353,242	1,462,680	1,580,195
Preferred shares	15,571	15,571	15,571	15,571
Derivative financial instruments				
Interest exchange agreements	-	60,873	-	85,751
Cross-currency interest rate exchange agreements	-	(37,624)	-	17,367
U.S. currency purchase and purchase option contracts	-	(38,777)	-	-
	1,347,249	1,353,285	1,478,251	1,698,884

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

14. UNCERTAINTY DUE TO YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may rise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 Issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. Management has developed and is implementing a plan designed to identify and address the expected effects of the Year 2000 Issue on the Company. As at August 31, 1998, the Company has commenced the identification of computer systems that will require modification or replacement. An assessment of the readiness of third parties, such as customers, supplier and others is ongoing, however, it is not possible to be certain that all aspects of the Year 2000 Issue affecting the entity, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

15. STATEMENTS OF CASH FLOWS

Additional disclosures with respect to the Statements of Cash Flows are as follows:

(i) Changes in non-cash working capital balances related to operations include the following:

[thousands of dollars]	1998 $	1997 $
Accounts receivable	(13,383)	(1,073)
Prepaids and other	(5,091)	2,748
Accounts payable and accrued liabilities	(22,629)	8,856
Income taxes payable/recoverable	(16,408)	25,780
Unearned subscriber revenue	2,562	6,017
	(54,949)	42,328

(ii) Interest and income taxes paid (recovered) are as follows:

[thousands of dollars]	1998 $	1997 $
Interest	155,858	119,708
Income taxes paid (recovered)	17,808	(19,452)

(iii) Cash flow from continuing operations per share is calculated based on cash flow from continuing operations less entitlements on Preferred Securities, net of applicable income taxes.

16. UNITED STATES ACCOUNTING PRINCIPLES

The consolidated financial statements of the Company are prepared in Canadian dollars in accordance with accounting principles generally accepted in Canada ("Canadian GAAP"). The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S. GAAP").

(a) Reconciliation to accounting principles generally accepted in the United States

[thousands of dollars]	1998 $	1997 $
Net income using Canadian GAAP	13,525	16,592
Add (deduct) adjustments for:		
Amortization of intangible assets (1)	(33,127)	(33,687)
Deferred charges (2)	(8,128)	(3,826)
Foreign exchange gains (losses) (4)	(51,905)	(24,521)
Equity in loss of Star Choice (5)	(2,682)	(4,706)
Adjustment to gain on sale of cable systems (3)	(32,446)	-
Gain on sale of subsidiary (6)	-	20,864
Dividends on redeemable preferred shares (9)	423	1,317
Interest on Preferred Securities (10)	(25,440)	-
Income tax effect of adjustments (3)	80,563	22,149
Net income using U.S. GAAP	(59,217)	(5,818)
Unrealized gains (losses) on investments classified as available-for-sale (8)	21,590	4,642
Comprehensive income using U.S. GAAP	(37,627)	(1,176)
Net income (loss) per share using U.S. GAAP	(0.80)	(0.08)
Comprehensive income (loss) per share using U.S. GAAP	(0.51)	(0.02)

Balance sheet items using U.S. GAAP

[thousands of dollars]	1998 Canadian GAAP $	1998 U.S. GAAP $	1997 Canadian GAAP $	1997 U.S. GAAP $
Investments and other assets (5) (6) (8)	712,689	758,752	156,246	180,833
Property, plant and equipment (3)	997,274	1,006,963	879,391	888,994
Deferred charges (2) (4)	69,519	36,530	57,334	29,225
Subscriber base and broadcast licenses (1) (3) (7)	1,304,904	1,738,942	1,294,648	1,793,050
Deferred income taxes (3)	220,092	700,897	161,012	726,306
Long-term debt (10)	1,225,273	1,827,752	1,408,059	1,408,059
Shareholders' equity	1,415,597	790,071	579,376	542,507

The cumulative effect of these adjustments on consolidated shareholders' equity is as follows:

[thousands of dollars]	1998 $	1997 $
Shareholders' equity using Canadian GAAP	1,415,597	579,376
Amortization of intangible assets (1)	(101,211)	(85,610)
Deferred charges (2)	(7,032)	(2,659)
Foreign exchange losses (4)	(49,805)	(15,419)
Equity in loss of Star Choice (5)	(7,388)	(4,706)
Gain on sale of subsidiary (6)	13,822	13,822
Gain on sale of cable television systems (7)	53,061	53,061
Unrealized gains (losses) on investments (8)	21,590	4,642
Preferred Securities (10)	(548,563)	-
Shareholders' equity using U.S. GAAP	790,071	542,507

Areas of material difference between accounting principles generally accepted in Canada and the United States and their impact on the consolidated financial statements are as follows:

(1) Amortization of intangible assets

Under Canadian GAAP, amounts allocated to subscriber base are amortized using an increasing charge method which commenced in 1992. Under U.S. GAAP, these intangibles are amortized over 40 years on a straight-line basis from the date of acquisition.

(2) Deferred charges

Marketing costs to launch new specialty channels and first year start-up and operating costs of new specialty programming networks are deferred and amortized under Canadian GAAP. Under U.S. GAAP, these costs are expensed as incurred.

(3) Deferred income taxes

U.S. GAAP requires companies to recognize deferred income taxes based on the liability method whereas under Canadian GAAP the Company uses the deferral method. Under the liability method, deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases.

(4) Foreign exchange gains (losses)

Foreign exchange gains (losses) on translation of long-term debt are amortized on a straight-line basis over the remaining life of the debt under Canadian GAAP. U.S. GAAP requires gains and losses to be included in income or expenses when incurred.

(5) Equity in loss of Star Choice

Under Canadian GAAP, the investment in Star Choice was accounted for using the cost method of accounting until CRTC approval was received for the transaction. When the Company received CRTC approval, the amount in the accounts under the cost method became the basis for the purchase price allocation and equity accounting commenced. Under U.S. GAAP, equity accounting for the investment should be retroactive to the date the Company first acquired shares in Star Choice.

(6) Gain on sale of subsidiary

In 1997, the Company acquired a 54% interest in Star Choice in exchange for the shares of HomeStar Services Inc., a wholly-owned subsidiary. Under Canadian GAAP the acquisition of the investment in Star Choice was a non-monetary transaction that did not result in the culmination of the earnings process as it was an exchange of control over similar productive assets. As a result, the carrying value of the Star Choice investment was recorded at the book value of assets provided as consideration on the transaction. Under U.S. GAAP the transaction would have been recorded at the fair value of the shares in HomeStar Services Inc. This would have resulted in a gain on disposition of the consideration the Company exchanged for its investment in Star Choice and an increase in the acquisition cost for Star Choice.

(7) Gain on sale of cable television systems

Under Canadian GAAP, no gain was recorded in 1995 on an exchange of cable television systems with Rogers Communications Inc. on the basis that this was on exchange of similar productive assets. Under U.S. GAAP the gain net of applicable taxes is recorded and amortization adjusted as a result of the increase in subscriber base upon the recognition of the gain.

(8) Unrealized gains (losses) on investments

Under U.S. GAAP, equity securities having a readily determinable fair value and not classified as trading securities, are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses included in comprehensive income and reported as a separate component of shareholders' equity net of related deferred income taxes. Under Canadian GAAP, these investments are carried at cost and written down only when there is evidence that a decline in value, that is other than temporary, has occurred.

(9) Redeemable preferred shares

Redeemable preferred shares with mandatory or retractable redemption provisions may not be classified as part of shareholders' equity for Canadian or U.S. GAAP purposes. However, under Canadian GAAP, dividends on preferred shares classified as debt are included in the income statement as an interest expense. Under U.S. GAAP, the dividend is treated as such and shown as a charge against retained earnings.

(10) Preferred Securities

Preferred securities are classified as equity under Canadian GAAP and interest thereon net of taxes is included in dividends. Under U.S. GAAP, the Preferred Securities would be classified as debt and interest thereon included in interest expense.

(b) Statements of cash flows

Differences between Canadian and U.S. GAAP presentation in the consolidated statements of cash flows are as follows:

- under U.S. GAAP, cash flow from continuing operations per share cannot be reported in the statement.
- bank indebtedness under U.S. GAAP is included in financing activities and not in the determination of cash position as is done under Canadian GAAP. Accordingly, under U.S. GAAP funds provided by financing activities would decrease by $20,876,000 and increase by $3,282,000 for the years ended August 31, 1998 and 1997 respectively.

(c) Stock-based compensation

The Company applies APB Opinion 25 in accounting for common share options granted to employees and officers. Had compensation expense been determined on the basis of the estimated fair values of the options granted in accordance with SFAS No. 123, "Accounting for Stock-Based Compensation", August 31, 1998 net loss would have been increased by $2,633,000 or $0.04 per common share (August 31, 1997 - net loss increased by $219,000 or nil per common share).

The fair value of common share options granted in 1997 is $8,209,000. The fair value of common share options granted is estimated as at the grant date using the Black-Scholes option pricing model, using the following assumptions:

Dividend yield	0.64%
Risk-free interest rate	5.16%
Expected life	5 years
Expected volatility	29%

17. SUBSEQUENT EVENTS AND PENDING TRANSACTIONS

(a) The Company has agreed, subject to CRTC approval, to sell a number of cable television systems in Ontario serving approximately 14,000 subscribers valued at $17 million. No significant gain or loss is anticipated on this transaction.

(b) The Company has agreed, subject to CRTC approval, to purchase the cable television system serving approximately 20,000 subscribers in Chilliwack, B.C. for $37.6 million.

(c) On September 15, 1998 the Company announced its intention, subject to regulatory and other approvals, to create a new public company ("Mediaco") whose assets would consist of the programming and radio operations and certain investments of Shaw Communications Inc., and the programming, radio and pay television operations and investments of WIC (Note 5). Under the proposal, Class A and B participating shareholders of the Company would receive pro-rata shares of Mediaco, based upon the value of assets, net of debt and other liabilities transferred to Mediaco.

five years in review

(thousands of dollars except per share amounts and subscriber statistics)

	1998	1997	1996	1995	1994
Income					
Cable television	602,665	542,308	540,679	407,226	268,427
Programming	72,877	61,939	7,653	-	-
Radio	51,617	41,118	29,711	24,767	18,506
Telecommunications	19,748	14,155	6,297	-	-
Paging	22,170	28,843	26,234	6,548	-
Internet	8,362	-	-	-	-
Satellite	6,361	-	-	-	-
	783,800	688,363	610,574	438,541	286,933
Operating, general and administrative expenses					
Cable television	328,974	285,693	284,551	222,452	133,076
Programming	53,540	47,019	7,181	-	-
Radio	33,836	26,488	20,824	18,847	14,818
Telecommunications	14,884	10,905	4,786	-	-
Paging	19,308	25,096	21,621	4,972	-
Internet	6,981	-	-	-	-
Satellite	10,430	-	-	-	-
	467,953	395,201	338,963	246,271	147,894
Operating income before amortization	315,847	293,162	271,611	192,270	139,039
Amortization	147,007	108,842	92,169	62,886	38,967
Operating income before the following	168,840	184,320	179,442	129,384	100,072
Interest expense	(135,191)	(135,403)	(130,832)	(71,658)	(37,415)
Gain on sale of assets	125,624	-	109,907	-	-
Asset write downs and provisions	(62,751)	(23,094)	-	-	-
Other revenue (expenses), net	6,416	1,210	(3,425)	3,797	1,856
Income from continuing operations before taxes	102,938	27,033	155,092	61,523	64,513
Income taxes	71,420	26,815	74,965	32,197	31,375
Equity loss in Star Choice	(21,406)	-	-	-	-
Minority interest	3,413	-	-	-	-
Net income from continuing operations	13,525	218	80,127	29,326	33,138
Discontinued operations	-	16,374	(16,374)	-	-
Net income	13,525	16,592	63,753	29,326	33,138
Earnings per share					
Net income from continuing operations	$ (0.01)	$ 0.01	$ 1.14	$ 0.45	$ 0.59
Discontinued operations	-	0.23	(0.23)	-	-
	$ (0.01)	$ 0.24	$ 0.91	$ 0.45	$ 0.59
Net cash flow from operations	183,686	151,747	123,695	102,787	78,117
Cash flow per share	$ 2.30	$ 2.17	$ 1.77	$ 1.59	$ 1.42
Basic cable subscribers	1,507,589	1,509,407	1,460,885	1,552,976	905,312
Penetration as percentage of homes passed	77.0	75.8	74.8	76.1	77.4
Full cable service subscribers	1,348,556	1,314,572	1,288,406	1,367,927	811,967
Penetration as percentage of basic	89.5	87.1	88.2	88.1	89.7
Cable income per average subscriber ($)	403	365	351	332	299
Operating income per average subscriber ($)	182	173	166	154	151

	August 31, 1998			August 31, 1997		
	Basic Subscribers	Basic Subscribers as % of Homes Passed	Full Cable Service	Basic Subscribers	Basic Subscribers as % of Homes Passed	Full Cable Service
British Columbia						
Port Alberni/Nanaimo/Parksville/Courtney/Comox	80,497	78.9	70,909	56,845	80.4	49,856
Duncan/Lake Cowichan	19,099	75.0	17,267	19,095	76.8	16,637
Victoria	113,700	77.7	99,293	113,615	78.1	97,374
Kelowna/Vernon/Penticton/Kamloops/Merritt	103,761	75.7	92,628	78,571	78.3	68,943
Prince George/Quesnel/Williams Lake	35,318	73.0	32,674	35,098	74.3	31,285
Fort St. John/Dawson Creek	9,154	60.0	8,168	9,072	60.6	7,861
Trail/Castlegar/Nelson	16,731	72.0	14,558	16,610	73.1	14,320
Cranbrook/Creston and area	17,370	72.3	15,581	17,038	72.6	15,558
	395,630	75.8	351,078	345,944	76.9	301,834
Alberta						
Calgary/Lethbridge and area	286,563	75.1	257,606	255,217	75.6	231,666
Edmonton/Red Deer and area	163,948	76.7	147,628	161,040	77.1	143,005
Fort McMurray	11,027	82.2	10,207	10,767	82.2	9,802
	461,538	75.8	415,441	427,024	76.3	384,473
Saskatchewan						
Saskatoon/Prince Albert	65,379	67.5	59,636	63,576	65.0	56,332
Moose Jaw/Swift Current	18,080	68.7	15,821	17,620	65.6	14,645
	83,459	67.8	75,457	81,196	65.1	70,977
Manitoba						
Winnipeg	79,058	83.4	70,001	78,874	84.0	67,508
Portage la Prairie	4,659	72.7	4,014	4,667	72.7	3,801
	83,717	82.7	74,015	83,541	83.3	71,309
Ontario						
Greater Toronto area	322,637	82.9	288,115	315,852	82.8	268,573
Barrie/Orilla/Borden and area	89,665	73.0	77,996	88,200	74.3	70,205
Thunder Bay	37,404	75.7	34,960	37,672	76.9	34,278
Sault Ste. Marie	27,778	78.3	25,776	27,979	79.5	24,062
Red Rock/Marathon and area	5,761	77.6	5,718	5,873	79.6	5,873
Windsor/Chatham/Leamington and area	-	-	-	84,376	57.2	72,474
Smith Falls and area	-	-	-	11,750	68.3	10,514
	483,245	80.0	432,565	571,702	75.6	485,979
Total	1,507,589	77.0	1,348,556	1,509,407	75.8	1,314,572

ANNUAL MEETING

The Annual General Meeting of Shareholders will be held on December 17, 1998 at 10:30 am at the Westin Hotel, 4th Avenue and 3rd Street S.W., Calgary, Alberta.

CORPORATE GOVERNANCE

Information concerning Shaw's corporate governance policy is contained in the Information Circular and is also available by contacting the Company.

INTERNET HOME PAGE

Shaw's Annual Report, Annual Information Form, Quarterly Reports, Press Releases and other relevant investor relations information are available electronically on the Internet at www.shaw.ca.

SHARE CAPITAL AND LISTINGS

The Company is authorized to issue an unlimited number of Class A participating and Class B non-voting participating Shares. At August 31, 1998, the Company had 5,760,186 Class A Shares and 76,788,692 Class B Shares outstanding. The Class A Shares are listed on the Alberta Stock Exchange under the symbol SCL.A. The Class B Shares are listed on The Toronto Stock Exchange and the Alberta Stock Exchange under SCL.B and on the New York Stock Exchange under the symbol SJR. The series A and B Preferred Securities (COPrS) are listed on the New York Stock Exchange under SJRPRA and SJRPRB respectively.

Trading Range of Class B Shares on the Toronto Stock Exchange

Sept. 1, 1997 to August 31, 1998	High	Low	Total Volume
First Quarter	$ 14.60	$ 11.25	15,876,125
Second Quarter	$ 18.10	$ 14.05	7,834,673
Third Quarter	$ 26.50	$ 17.50	31,755,719
Fourth Quarter	$ 36.00	$ 22.90	10,651,589
Closing Price, August 31, 1998	$ 26.70		66,118,106

SHARE SPLITS

There have been two splits of the Company's shares - May 18, 1994 (2 for 1) and September 23, 1987 (3 for 1).

DIVIDEND POLICY

The current annual dividend rates are $0.07 per Class A participating share and $0.08 per Class B non-voting participating share. Dividends are subject to review by the Board of Directors on an annual basis.

QUARTERLY INFORMATION (thousands of dollars except per share amounts)

	Operating Revenue	EBITDA[1]	Earnings per Share[2]	Cash Flow	Cash Flow per Share[3]
1998					
Fourth Quarter	202,608	82,506	(0.08)	47,909	0.51
Third Quarter	200,499	83,243	0.10	36,605	0.63
Second Quarter	188,889	70,096	(0.09)	48,392	0.47
First Quarter	191,804	80,002	0.06	50,780	0.69
Total	783,800	315,847	(0.01)	183,686	2.30
1997					
Fourth Quarter	179,669	76,115	0.06	47,514	0.68
Third Quarter	176,159	75,472	0.06	37,253	0.53
Second Quarter	167,139	70,636	0.06	33,442	0.48
First Quarter	165,396	70,939	0.06	33,538	0.48
Total	688,363	293,162	0.24	151,747	2.17

(1) Earnings before interest, taxes, depreciation and amortization
(2) Earnings per share from continuing and discontinued operations
(3) Cash flow per share from continuing operations

Directors

JR Shaw[4]
Chairman of the Board and Chief Executive Officer, Shaw Communications Inc.

John L. Bragg[3]
President, Oxford Foods Ltd.

Julia Conway[3]
Corporate Director

Jim Dinning[1][2]
Senior Vice President, Corporate Development, TransAlta Utilities Corporation

Clinton C. Forster[1][2]
President, Forvest Broadcasting Corporation

George F. Galbraith[4]
Corporate Director

Charles V. Keating[2]
Chairman, Access Cable Television Limited.

Rt. Hon. Donald F. Mazankowski[3][4]
Corporate Director

Dorothy Zolf McDonald, Ph.D.[1][2]
Corporate Director

Jeffrey Royer[1][2]
Corporate Director

Leslie E. Shaw[3][4]
Chairman, Shaw Industries Ltd.

Heather A. Shaw[1][3]
President, DMX Canada and Shaw Advertising Services

J.C. Sparkman[4]
Corporate Director

(1) Audit Committee
(2) Human Resources Committee
(3) Corporate Governance Committee
(4) Executive Committee

Officers and Senior Management

JR Shaw
Chairman of the Board and Chief Executive Officer

Jim Shaw
President and Chief Operating Officer

Peter J. Bissonnette
Senior Vice President, Operations Shaw Cablesystems G.P.

John Cassaday
President, Shaw Media

Michael D'Avella
Senior Vice President, Planning

Louis A. Desrochers
Honourary Secretary

Margot M. Micallef
Corporate Secretary and Corporate Counsel

Michael G. Ostopowich
Vice President, Finance

Ronald D. Rogers
Senior Vice President and Chief Financial Officer

Heather A. Shaw
President, DMX Canada and Shaw Advertising Services

Ken C.C. Stein
Senior Vice President, Corporate and Regulatory Affairs

James T. (Terry) Strain
President, Shaw Radio Ltd.

Robert C. Watson
President, Shaw FiberLink Ltd.

Corporate Office

Shaw Communications Inc.
Suite 900, 630 - 3rd Avenue S.W.
Calgary, Alberta T2P 4L4
Telephone (403) 750-4500
Facsimile (403) 750-4501
Website www.shaw.ca

Auditors

Ernst & Young LLP

Primary Bankers

The Toronto-Dominion Bank

Transfer Agents

CIBC Mellon Trust Company, Calgary
1-800-387-0825

Chase Mellon Shareholder Services, L.L.C., New York
1-800-526-0801

Debenture Trustees

CIBC Mellon Trust Company
Montreal Trust Company of Canada
IBJ Schroder Bank & Trust Company

Further Information
Financial analysts, portfolio managers, other investors and interested parties may contact the Company at (403) 750-4500 for further information.

To receive an Annual Report of the Shaw Children's Programming Initiative, please fax your request to (403) 750-4501.

To receive additional copies of the Annual Report for Shaw Communications Inc., please fax your request to (403) 750-7469.

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Photography by Gary Campbell Studio
Executive Photos by MMP Inc.

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